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Canada: recent developments and prospects

Canada suffered a severe recession in 1981-82, and since the beginning of this year has enjoyed a substantial recovery. Recession was deeper than in the United States, and the subsequent recovery does not appear to have quite as much momentum. These differences are attributable in part to the fact that the Canadian economy was in worse shape at the beginning of the 1980s in terms of inflationary pressures, productivity performance, and energy policy. Damage to the Canadian investment climate caused by increased government intervention in markets and resurgent economic nationalism undoubtedly intensified the downturn. That subsequent recovery has not been quite as robust and broadly based as in the United States also reflects less domestic policy stimulus.

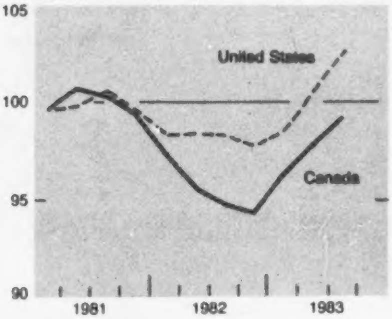
Nonetheless, compared with the experience in Europe and Japan, Canada's economic upturn is impressive. It is not surprising that Canada has shared in the strong U.S. rebound, given the country's very close links with the United States. Expansionary domestic fiscal policy has also played an important role. In contrast, European and Japanese governments have maintained restrictive fiscal policies that have dampened or delayed the resumption of economic growth. While critics abroad have argued that the U.S. policy mix, particularly high interest rates, inhibits their recovery, Canada, which incidentally has a similar policy mix, has enjoyed a good recovery.

Many of the concerns and policy issues now facing Canada — worry about sustaining recovery and avoiding renewed inflationary pressures, anxiety over the competitiveness of Canadian industry in world markets, and concern about the effects of large budget deficits — closely resemble those in the United States. It seems likely that Canadian economic growth will continue, but at a more moderate pace than experienced earlier this year. Canada's large budget deficits threaten to crowd out private-sector investment at some stage, but do not pose an immediate threat. Inflation has leveled out at around 5% and probably will not reaccelerate significantly next year. However, the competitive position of Canadian industry has already eroded as a result of more rapid cost increases than in the United States and the decision to tie the Canadian dollar more

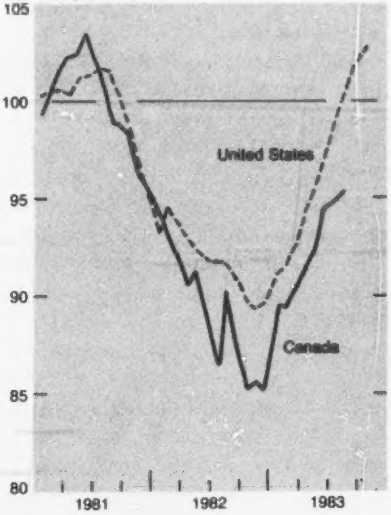
Chart 1

Recession and recovery

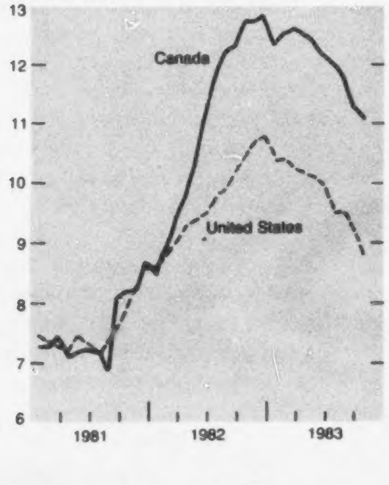
Real GNP
index, 1981 = 100



Industrial production
index, 1981 = 100



Unemployment rate
in percent



closely to the strong U.S. dollar. In time, this may be reflected in trade performance and pressure on the Canadian dollar.

Economic recovery

Canada's real GNP advanced at nearly a 7½% annual rate in the first two quarters of 1983. Notwithstanding signs of slowing during the summer months, growth probably ran close to 6% in the third quarter.

This brisk upturn followed six quarters of recession, which saw a 6½% drop in real GNP and a rise in unemployment from just over 7% of the labor force in mid-1981 to 12.8% at the end of 1982. It was by far the steepest contraction of economic activity in Canada since the 1930s, and it was greater than that experienced by the United States in 1981-82 (see Chart 1). Even with the strong upturn this year, real GNP in the third quarter of 1983 was approximately 1½% below the pre-recession peak, whereas the United States exceeded its previous peak in output at midyear. By October employment had risen sufficiently to restore about three-fifths of the jobs lost during the recession, but the unemployment rate, at 11.1%, remains very high.

Several factors triggered recovery. Monetary and fiscal policies were eased as inflation decelerated. Particularly important was the six-percentage-point decline of short- and intermediate-term interest rates in the second half of 1982 and early 1983, which paralleled the drop in U.S. rates. It led to a pickup in such interest-sensitive sectors as consumer durables and housing. The federal government, in addition to allowing full operation of the automatic stabilizers, took several discretionary fiscal measures to assist recovery. As a result, the federal budget deficit (on a national income accounts basis) rose from C$5.5 billion (1.7% of GNP) in the first half of 1981 to C$22.6 billion (6%) in the first half of 1983, at seasonally adjusted annual rates. In addition to these policy influences, rapid recovery in the United States, which is the market for over two-thirds of Canada's exports, provided a strong boost to domestic output. Exports to the United States increased by nearly 10% in the first nine months of 1983 from a year earlier. Finally, the rate of inventory reduction slowed. Sharp inventory cuts accounted for nearly two-thirds of last year's 4.8% decline in real GNP, whereas the slowing of such reductions contributed more than two-thirds of the real GNP gain in this year's first half.

Even though real disposable income fell during the first half of this year, consumer spending in real terms rose at an annual rate of 3.7% from the second half of 1982. Consumer confidence improved rapidly as interest rates, inflation, and unemployment declined. This led consumers to reduce their rate of saving, which had climbed to a record-high 15% last year. The personal savings rate dropped to 11.4% in the first half of 1983, or close to the average for the five years through 1981. However, retail sales growth slackened during the third quarter, partly because of the reinstatement of the Ontario sales tax on household appliances and furniture in early August and temporary shortages in auto inventories during the model-year changeover. It also appears that Canadian consumers have not been drawing on their savings to the same extent as earlier in the year.

Housing activity rebounded sharply in late 1982 and the first half of 1983, stimulated by government incentive programs and a large drop in mortgage rates. By mid-1983 the average rate for a five-year conventional mortgage had fallen to about 13% from over 19% a year earlier. Housing starts jumped from an annual rate of less than 100,000 in the third quarter of 1982 to 220,000 in the second quarter of 1983. Since then, however, the pace of new starts has fallen off, partly reflecting the expiration of government support programs.

The slackening of output and retail sales growth and the fallback in housing starts during the summer months are seen by some observers as portents of a slowdown in economic growth during the remainder of this year and in 1984. The flattening of interest rates at such high nominal and real levels and the winding down of special government programs for direct employment support and public works are also cited as reasons for expecting a slowdown.

Still, growth should continue at a 4%-5% rate through next year. The momentum of the U.S. economy will have an important real and psychological influence on Canadian business. Inventories are now well below trend in relation to sales, so an end to destocking late this year and a gradual rebuilding of inventories next year ought to provide a boost to output. As evidence, new orders received by manufacturers rose 25% at an annual rate in the three months ended August 1983. Consumer outlays also should rise, albeit gradually. Consumers have built up their liquidity and trimmed their debt burdens, and pent-up demand for consumer durables has not been fully satisfied. Even though wage settlements have decelerated sharply over the past year, employment gains should be sufficient to keep consumer income growth ahead of inflation. The government also may put more funds into job creation programs next near.

Business plant and equipment investment has been very weak. It fell more than 11% in real terms last year and at an annual rate of 6.7% in the first half of 1983. However, a midyear survey of investment intentions implied that business planned to invest almost as much in the second half of this year as it did in the first half. New orders for machinery and equipment as well as imports of same have picked up in recent months. Business sentiment has improved as sales have increased and corporate profits have begun to recover. Better relations between business and the government and more favorable attitudes toward foreign investment also have helped. But several factors will probably delay a major upturn in plant and equipment outlays, especially for new capacity as opposed to cost reduction.

First, capacity utilization, while up from recession lows, is still well below normal even allowing for the possibility that existing capacity measures do not sufficiently reflect obsolescence. The rate of capacity utilization in industry during the second quarter of 1983 reached about 73%, compared with over 85% in mid-1981 and a long-term average of close to 90%. In some sectors, particularly such cyclically sensitive ones as mining, chemicals, transportation equipment, and other machinery and equipment, capacity utilization rates are much lower, ranging between 50% and 65%.

Second, although corporate profits have improved sharply this year, they are recovering from a very low level. Pretax corporate profits plunged by more than 40% between the first half of 1981 and the second half of 1982, falling as a share of net national income from 14.3% to 7.8%. Even with the strong first-half 1983 recovery, their share was only 10.2%. Returns on capital will have to improve further before substantial new outlays become attractive, especially given the high level of interest rates.

Third, many corporations are using their higher profits and better cash flows to rebuild liquidity and improve balance sheet positions before embarking on major new capital expenditures. Thus, business capital spending is unlikely to make a significant contribution to Canada's overall economic expansion before the middle of next year.

Inflation subsides

Overall economic recovery has been accompanied by a further easing of inflationary pressures. The unwinding began in the second half of 1982 while recession was still deepening. Canada, however, lagged behind the United States and many other industrial nations in bringing inflation under control. This was a reflection of how deeply imbedded inflationary expectations had become, as well as a consequence of the delay in raising domestic energy prices toward higher world price levels. From late 1982 on, however, inflation decelerated rapidly. The consumer price index rose only 5% in the 12 months to September 1983, versus a 12-month rate of 10.4% a year earlier, and a 12.5% average in 1981.

Underlying the rapid deceleration of inflation has been the effect of recession on domestic product and labor markets. Wage increases granted in the second quarter of 1983 under major private-sector collective bargaining agreements (without cost of living allowances) averaged less than 6%, compared with increases averaging more than 12½% in the first half of 1982. The sharp deceleration in wages has been aided by the federal government's 6/5 program, which limited wage increases of federal employees to 6% in the year to mid-1983 and 5% in the year to mid-1984. Most provincial governments implemented similar wage restraint. Altogether, an estimated 80% of all public-sector employees in the country were brought under some form of wage control legislation.

Labor productivity, measured by real GNP per employee, began to rise during the latter part of 1982, even while output was still falling. And it increased at an annual rate of 4% in the first half of 1983 as recovery progressed, reversing a decline in this broad measure of productivity in recent years. In combination with the deceleration in wages, the productivity improvement slowed the rise in unit labor costs to about 2% at an annual rate in the first half of 1983, compared to increases averaging nearly 12½% in the previous three years. In manufacturing alone, unit labor costs actually declined at an annual rate of about 3½% in the first half of 1983, versus an increase of 14½% in 1982.

One of the key issues now facing Canada is whether progress in reducing inflation over the past year can be consolidated. Some observers argue that inflation has bottomed out and will accelerate as management and labor attempt to recoup lost ground in terms of profit margins and nominal wages. Monetarists express concern about the impact of rapid acceleration of money supply (M1) growth this year. Others point to large federal budget deficits and worry that continuing high unemployment will pressure the government to take steps that could aggravate inflation. Some also regard the recent upturn in productivity as largely cyclical and find the long-term slowdown in productivity disturbing from the viewpoint of inflation as well as potential growth.

Chances are that price and cost increases will remain in the 5%-6%

range through 1984. Food price increases are expected to accelerate somewhat from the 2.6% rate in the past 12 months. Energy prices, however, are likely to remain subdued given soft world oil market conditions and the suspension of further increases in domestic oil prices. Although industrial commodity prices rose briskly at the beginning of this year, many metal and mineral prices have eased in recent months, lessening upward pressure on consumer prices from this source.

Table 1

Current account

billions of dollars

	1982	*1983*	*1984*
Exports	68.6	73.0	80.0
Imports	—53.7	—59.0	—65.5
Trade balance	14.9	14.0	14.5
Net services and transfers	—12.4	—12.5	—13.7
Current account	2.5	1.5	0.8

The moderating trend in wages should continue as recent, lower settlements feed through. Federal government employees will remain under a 5% wage-increase limit through mid-1984, and budgetary constraints should contain pay increases at provincial and local levels. There will be a heavy bargaining calendar in 1984, but with consumer price inflation of 5½% and unemployment averaging nearly 11% next year, labor ought not be too aggressive. Likewise, managements are likely to remain very cost conscious.

Productivity trends are uncertain. There should be more near-term, cyclical improvement. However, long-term trends have been unfavorable. Productivity in Canada, as measured by real output per employed person, declined at an average annual rate of 0.2% between 1974 and 1982. This was the worst performance among the seven largest industrial nations. Various explanations have been advanced: shifts in industrial structure toward more service-oriented industries; changes in the age-sex composition of the labor force; decline in the growth of capital stock relative to labor; obsolescence of existing capital stock due to higher energy prices; slowness in adopting new technology; geographic and institutional rigidities that inhibit labor and capital mobility; and depletion of the most accessible and highest quality natural resources. But numerous studies have failed to establish major quantitative significance for any single factor, making it difficult to judge whether future productivity trends will be much better than in the past, thereby alleviating inflationary pressures. Nonetheless, as in the United States, there is considerable evidence of efficiency improvements in Canadian industry that are more than cyclical in nature.

Current account and the dollar

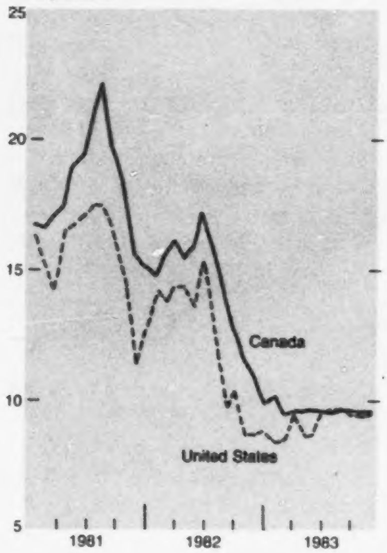
Canada's exceptionally deep recession last year led to a large increase in the country's merchandise trade surplus from $6.2 billion in 1981 to $14.9 billion in 1982, as imports fell by more than 16% while exports dropped by less than 3%. This year import volume has recovered more rapidly than export volume, but these relative volume changes have been partly offset by improved terms of trade. Exports to the United States have risen strongly this year, but shipments to Western Europe and Latin America have fallen considerably. In the first three quarters of this year the trade surplus was $14.3 billion at a seasonally adjusted annual rate, only slightly below last year's record level. Thus, the current account balance, which swung into a surplus of $2.5 billion last year from a deficit of $4.8 billion in 1981, has remained in surplus. Allowing for a modest widening of Canada's net invisibles deficit, the current account surplus probably will narrow to around $1½ billion for the full year (see Table 1).

While cyclical factors have been the predominant influence on Canada's trade and current account performance during the past two years, major shifts in energy and automotive trade are partly explained by

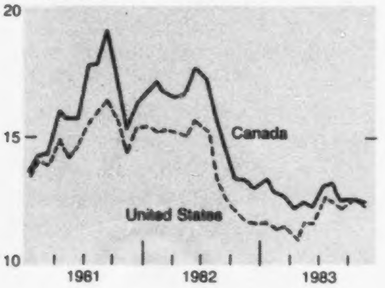
Chart 2

Canadian and U.S. interest rates
end of month data

90-day commercial paper rates
in percent



Long-term corporate bond yields
in percent



other factors. Canada's surplus in net energy trade rose from $1.9 billion in 1981 to $4.9 billion in 1982, and $7.3 billion in the first half of 1983 at an annual rate. Most of this increase was accounted for by a swing in net oil trade (crude and products) from a deficit of $3 billion in 1981 to a surplus of nearly $2 billion in the first half of 1983 at an annual rate. Since 1981 domestic oil production has risen slightly, while domestic oil consumption has fallen by more than 12% as a consequence of lower economic activity, higher domestic oil prices, and switching to alternative fuels, especially natural gas. There has also been a favorable swing in Canada's motor vehicle trade with the United States from a deficit of $1.9 billion in 1981 to a surplus of $2.2 billion in the first half of 1983 at an annual rate. Not only have car sales recovered more strongly in the United States than Canada, but sales have shifted toward larger-sized models, in which Canadian production is concentrated.

The current account is likely to remain in surplus next year, although the magnitude probably will shrink to less than $1 billion. Exports to the United States should continue to expand at a good pace, while shipments to Europe and Japan ought to pick up as economic activity revives in those markets. Imports will also rise, although their rate of growth should moderate in line with the slowing of domestic growth, at least until machinery and equipment investment, which is very import intensive, strengthens. However, there are not likely to be further gains in net automotive and energy trade. In the latter case, domestic oil consumption may level out and domestic production could fall slightly. Moreover, natural gas exports to the United States could weaken further in view of the current gas glut in the United States and the relatively high export price of Canadian gas. Canada's large net invisibles deficit also could widen, especially as the recovery of corporate profits leads to increased direct investment income payments. The terms of trade are a major source of uncertainty affecting next year's current account outlook. As a large net exporter of agricultural commodities, metals, and other industrial materials, and a large net importer of finished manufactures, Canada's terms of trade are particularly sensitive to world commodity price developments.

Current account surpluses, plus substantial long-term borrowing abroad through the issuance of bonds and notes, have supported the Canadian dollar. The currency also has benefited from the sharp drop of inflation and from some of the same "safe haven" considerations that have attracted funds into the U.S. dollar. These factors have enabled the Bank of Canada to narrow interest rate differentials with the United States — and even temporarily reverse them at the short end of the market — while maintaining a stable U.S. dollar exchange rate. With some narrowing of the current account surplus likely and inflation moderately higher than in the United States, the restoration of positive interest differentials may be needed to maintain exchange rate stability vis-à-vis the U.S. dollar — a key policy objective.

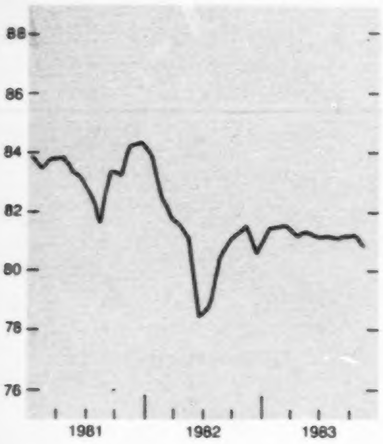
Policy issues

Maintaining exchange rate stability in relation to the U.S. dollar has been an important policy consideration for several years, but it has assumed even greater significance during the past year or so as an integral part of the government's anti-inflation strategy.

The Bank of Canada, which still

Chart 3

Canadian dollar exchange rate
monthly average rates
in U.S. cents



carries the main burden of fighting inflation, has stated its intention to maintain steady downward pressure on inflation. Until a year ago the central bank's operations were geared toward meeting successively lower target ranges for M1 growth. However, in November 1982 it withdrew its target range for M1 growth. At the time, M1 had been growing below the lower boundary of the 4%-8% target for more than a year. The bank withdrew the target range because it felt that, partly because of rapid financial innovation, the relationship of M1 to interest rates and total spending was no longer sufficiently reliable to be useful for setting targets. The bank has yet to identify another aggregate considered suitable for target-setting, but insists that there has not been a basic change in its approach to monetary policy, namely slowing the rate of monetary expansion.

Some observers have expressed concern about the inflationary implications of the sharp acceleration of M1 growth this year. M1 has risen more than 12% over the past 12 months. However, the broader aggregates do not convey a picture of excessive monetary expansion: M2 is up only 5% over the past year and M3 is virtually unchanged, while total bank loans have fallen by nearly 10%.

In the absence of a specific money supply target, the exchange rate has become the most visible focus of monetary policy operations. The Bank of Canada argued in its last annual report that the exchange rate for the Canadian dollar in relation to the U.S. dollar is the most important single price in the economy, and that wide swings in the rate would be disruptive in terms of real economic activity and price stability. In its judgment, the current exchange rate level strikes an appropriate balance between the need for export industries to be reasonably competitive in foreign markets and the desire to prevent domestic prices and costs from being driven up by exchange rate depreciation.

Given the high degree of interconnection between the Canadian and U.S. economies and financial markets, stabilizing the exchange rate has entailed a considerable degree of harmonization of policies, especially monetary policy. It has meant that Canadian interest rates have had to be kept broadly in line with U.S. rates. Canadian dollar strength arising from trade and current account surpluses, as well as other factors, however, has allowed the Bank of Canada to permit the differential between Canadian and U.S. interest rates to narrow over the past year (see Chart 2). Indeed, since July 1983 the differential in money market rates has occasionally turned slightly negative, with the exchange rate remaining stable at around 81 U.S. cents (see Chart 3). Canadian officials can be expected to take every opportunity to reduce domestic interest rates further in relation to U.S. rates as long as it does not seriously jeopardize the Canadian dollar's stability in relation to the U.S. dollar.

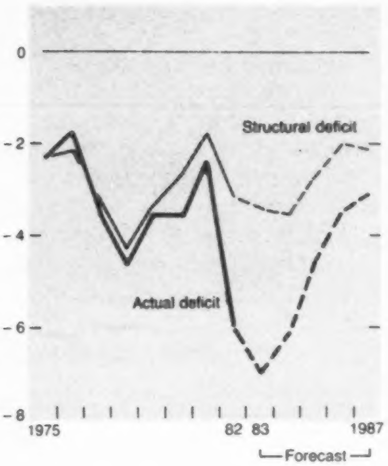
The desirability of maintaining a stable exchange rate at the current level may be called into question at some point. For example, if U.S. interest rates were to rise substantially next year, Canadian officials would be faced with a difficult choice between raising domestic interest rates, with the risk of slowing economic activity while unemployment is still very high, or allowing the exchange rate to weaken, with the risk of worsening domestic inflation.

Another consideration is the competitiveness of Canadian industry. Canada's cost competitiveness vis-à-vis the United States has eroded

Chart 4

*Federal government budget deficits**

as percent of GNP



in recent years, and Canadian wage costs are likely to continue rising relative to those in the United States in the year ahead. Between 1980 and the second quarter of 1983, Canada's unit labor costs in manufacturing, adjusted for exchange rate changes, rose 9% more than those in the United States. This eliminated much of the gain Canada made in the late 1970s as a result of the depreciation of the Canadian dollar.

Moreover, in maintaining a stable exchange rate against the strong U.S. dollar, Canada has lost considerable competitive ground in relation to many European countries as well as Japan. A number of Canadian industries are now facing severe price competition from abroad.

A policy change is not imminent. But if Canada is unable to hold its costs in line with the United States and other competitors and if Canada's trade performance proves weaker than expected, the wisdom of maintaining the current exchange rate level will be increasingly questioned, if not tested in the marketplace.

Fiscal policy has shifted in the direction of stimulating recovery and reducing unemployment. In April the government launched a Special Recovery Program — comprising additional outlays for public works and job creation, liberalized investment tax credits, and increased support for housing and exports — with a net cost of about C$1.9 billion (0.5% of GNP) in the current fiscal year, which runs through March 1984. Overall, federal government expenditures are budgeted to increase nearly 12% versus the rise in total revenues of about 9%, producing a deficit on a national accounts basis of C$28.2 billion (7.3% of GNP), up from C$23.5 billion (6.7%) in 1982/83 and C$9.9 billion (3.0%) in 1981/82. In relative terms, Canada's federal budget deficit is larger than that of the United States, which on a comparable basis was 5.7% of GNP in the fiscal year just ended.

In an effort to allay concerns that large federal budget deficits will lead to inflation and crowding out of private investment, the government last April presented a medium-term plan for steady reduction in the deficit to around C$17 billion or just over 3% of GNP in 1987 (see Chart 4). This projected decline reflects the effects of both economic growth and measures to trim the structural component of the deficit. The government estimates that about half of this year's budget deficit is structural, and that by 1987 the structural component will narrow to about 2% of GNP, reflecting in part tax increases adopted last April that go into effect in late 1984 and 1985. In this respect, Canada's budget outlook diverges from that of the United States where, on the basis of existing revenue and expenditure programs, the structural element of the deficit rises steadily in relation to GNP.

On the basis of fairly optimistic assumptions that real GNP growth will average more than 4½% per annum during 1984-87 and unemployment will fall from an average of about 12% this year to less than 9% in 1987, the cyclical element of the deficit is estimated by the government to fall from about 3½% of GNP in 1983 to a little over 1% in 1987. If growth averages only about 3% and unemployment remains close to 11%, the budget deficit in 1987 would be nearer to 4% of GNP, with the cyclical component more than half of this.

Past experience gives ground for doubts about the realization of medium-term fiscal plans. In the early 1980s the government sought to curb budget deficits in future years with the National Energy Program (NEP), which sharply increased taxes on oil and gas production. However, the negative impact of the NEP on the petroleum industry and, even more importantly, the weakening in world oil prices forced modifications in energy taxes and sharply reduced expected federal revenues, thereby undermining that strategy for medium-term budget reduction.

The latest fiscal plan envisages a decline in the ratio of total expenditures to GNP from a high of about 26% in the current fiscal year to 23½% in 1986/87, but the government's record of expenditure restraint arouses skepticism. Since the mid-1970s the government has repeatedly promised to hold expenditure growth in line with overall GNP growth. Yet, total outlays actually rose from about 21% of GNP in the mid-1970s to nearly 26% in the fiscal year that ended last March. With elections expected next year, the government is already hinting at new outlays for job creation next year that could delay deficit reduction.

Crowding out of private-sector investment, nonetheless, is not likely to become a serious problem for at least another year. Private-sector investment activity is weak this year and is unlikely to strengthen very much until the second half of 1984. In addition, corporate cash flows are improving rapidly as a result of the strong profit recovery. Of course, if economic recovery proves to be more robust than expected and progress is not made in reducing the budget deficit, the risk of heavy upward pressures on interest rates in Canadian financial markets arising from competing demands for funds could become very real by 1985. However, for at least the next year or so Canada is headed for reasonably good economic growth, similar to that expected in the United States.

Statistical appendix

for key to data in tables see pages 18 and 19.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers 1980-82=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1970	113.2	118.4	69.2	115.5	111.3	66.2	224.6	146.7	80.7	91.4	81.9	142.8	51.9	112.9	92.1	119.0
1973	95.5	119.6	83.6	128.8	114.5	75.9	144.4	122.9	84.0	94.5	85.7	143.6	58.0	114.9	95.1	116.9
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.6
1982																
November	115.0	101.2	95.6	97.2	90.1	104.8	91.1	97.5	103.0	90.5	105.3	92.4	104.7	96.7	98.5	82.4
December	111.3	99.5	103.0	96.7	91.6	106.7	92.1	92.9	103.8	90.8	105.7	83.9	107.3	98.2	98.2	81.2
1983																
January	109.9	100.2	106.9	97.4	92.3	107.6	93.2	90.0	104.5	91.5	106.6	82.9	101.2	99.1	97.6	81.3
February	111.0	100.5	105.9	96.8	91.9	107.0	92.6	88.2	103.6	91.0	106.2	81.9	110.3	98.6	98.0	81.1
March	112.0	100.9	105.8	89.3	90.8	108.9	91.3	86.4	104.8	92.2	106.5	80.5	108.4	98.7	97.8	81.2
April	112.5	100.4	106.4	87.5	87.7	109.1	91.3	90.2	104.4	91.5	105.1	80.1	109.9	98.7	98.7	81.5
May	112.2	100.6	107.9	88.2	86.8	108.5	90.8	92.9	104.0	90.8	104.8	79.5	110.6	97.5	99.3	81.7
June	114.3	100.8	106.6	89.4	86.4	107.6	90.7	93.6	103.4	90.2	104.6	78.3	110.6	96.2	99.5	82.2
July	115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August	117.0	101.2	106.2	91.5	85.6	106.5	89.6	94.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
October 7	114.8	101.1	110.9	92.5	85.4	108.2	88.6	91.5	103.6	88.7	105.2	76.0	113.7	95.1	100.8	82.9
14	114.8	101.0	110.7	93.4	85.3	107.8	88.6	92.5	105.7	88.7	105.0	75.9	113.0	95.2	100.9	82.3
21	114.6	101.0	110.7	93.7	85.5	108.3	88.7	92.0	103.8	88.7	105.0	75.9	113.3	95.1	100.8	82.2
28	115.0	101.0	110.9	94.1	85.5	107.9	88.4	92.4	103.7	88.6	104.8	76.0	113.0	95.2	100.6	82.5
November 4	115.8	101.1	110.4	94.1	85.4	107.5	88.3	92.8	103.6	88.6	104.7	75.9	112.4	95.0	100.8	82.6
11	116.2	101.0	110.3	94.4	85.3	107.3	88.2	93.1	103.2	88.4	104.5	75.7	112.5	94.7	100.8	82.7
18	116.5	100.9	110.6	95.1	85.0	107.0	88.5	93.0	103.4	88.4	104.4	76.0	112.7	94.8	101.0	82.8

Real effective exchange rates

Index numbers 1980-82=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1970	116.3	104.4	87.7	96.1	99.5	98.8	118.0	79.3	90.2	120.7	98.2	67.8	75.2	110.0	93.0	103.7
1973	91.7	110.7	108.4	104.9	103.5	108.3	109.6	71.5	93.7	118.4	103.8	75.8	88.9	110.1	100.2	102.5
1980	89.5	99.6	103.1	93.1	102.2	103.5	103.5	99.2	100.2	107.5	100.0	102.0	98.7	103.7	96.4	101.3
1981	100.7	100.0	104.7	102.8	100.2	97.4	98.7	101.9	99.1	100.3	97.7	99.1	98.8	99.3	101.2	102.1
1982	109.8	100.4	92.3	104.1	97.6	99.1	97.8	98.9	100.7	92.1	102.4	99.0	102.5	96.9	102.4	96.5
1982																
November	115.6	101.1	87.8	102.7	95.2	99.5	97.8	98.7	100.9	90.3	103.7	99.3	101.5	98.9	99.2	89.1
December	111.8	99.5	94.2	102.4	97.1	100.7	99.1	95.0	102.1	91.0	103.4	91.7	103.3	100.0	99.2	88.0
1983																
January	109.6	100.8	97.8	103.8	97.4	101.1	101.4	92.6	103.1	91.7	104.6	91.5	97.0	101.0	98.9	89.2
February	110.2	101.4	96.8	103.7	98.4	99.7	99.9	90.7	102.5	92.8	103.6	91.5	105.4	100.8	100.0	88.6
March	110.6	102.7	96.5	96.3	97.6	101.0	99.7	89.1	103.7	94.0	103.5	90.3	103.4	101.0	99.3	88.7
April	110.4	103.0	96.0	94.7	96.1	100.9	100.1	93.2	102.4	93.0	101.7	90.4	104.4	100.9	100.3	89.3
May	110.3	103.2	96.9	95.5	94.7	100.1	100.2	96.3	101.6	92.3	101.4	90.3	104.6	100.0	101.4	90.0
June	112.5	103.5	95.3	96.8	94.4	99.3	100.1	96.9	101.0	91.4	101.1	89.5	104.4	98.5	100.8	91.2
July	113.4	103.6	95.3	97.4	95.2	98.5	100.3	96.5	101.3	90.5	100.9	87.8	105.2	97.3	101.2	92.1
August	115.3	103.6	93.7	99.5	94.6	98.3	99.7	97.3	100.4	89.6	100.1	87.9	106.2	95.8	101.0	92.8
September	113.9	104.7	94.5	100.7	95.1	98.6	99.3	97.5	100.3	89.0	100.2	87.3	106.1	95.8	101.3	93.1
October	112.1	104.5	97.1	102.3	95.3	99.6	99.3	95.9	100.6	88.6	100.8	86.6	106.8	95.9	100.9	93.4

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, Singapore, and United States international banking facilities
billions of dollars (rounded to nearest $5 billion), at end of period

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	
										Mar	Jun
Estimated size											
Gross	395	485	595	740	950	1 235	1 525	1 880	2 060	2 090	2 055
Liabilities to nonbanks	80	90	115	145	190	260	350	460	505	505	n.a.
Liabilities to central banks	60	65	80	100	115	145	150	130	90	90	n.a.
Liabilities to other banks[a]	255	330	400	495	645	830	1 025	1 270	1 465	1 495	n.a.
Net	220	255	320	390	495	590	730	890	960	965	970
Claims on nonbanks	105	130	165	210	265	330	425	530	595	600	n.a.
Claims on central banks and on banks outside market area[b]	95	105	130	150	185	200	230	275	270	265	n.a.
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	25	30	45	60	75	85	95	100	n.a.
Eurodollars as % of gross liabilities in all Eurocurrencies	76	78	80	76	74	72	75	78	79	80	80

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Eurodollar:											
overnight	19.25	12.87	9.25	9.13	8.75	8.88	9.50	8.75	9.38	9.25	9.25
7-day fixed	19.75	13.00	9.25	9.25	8.75	8.88	9.50	9.44	9.50	9.38	9.25
one month	19.12	13.31	9.13	9.44	8.94	9.13	9.50	9.81	9.88	9.38	9.44
three months	17.55	13.75	9.19	9.63	8.88	9.44	9.69	10.19	10.25	9.50	9.63
six months	16.37	14.81	9.50	9.75	9.06	9.63	9.94	10.63	10.63	9.69	9.63
twelve months	14.87	14.75	9.63	9.94	9.25	9.81	10.06	10.75	10.94	10.00	9.69
Euromark:											
one month	8.87	10.44	5.88	4.81	4.88	4.94	4.94	4.81	5.25	5.56	5.56
three months	8.87	10.50	5.88	4.94	5.00	5.06	5.19	5.06	5.50	5.75	5.81
six months	8.87	10.56	5.94	5.13	5.06	5.25	5.50	5.50	5.94	5.88	5.81
twelve months	8.93	10.25	6.00	5.38	5.31	5.69	5.94	5.94	6.44	6.19	6.13
Euro-Swiss franc:											
one month	6.00	8.87	2.81	3.81	4.31	4.75	4.56	4.69	4.19	3.69	3.50
three months	6.00	9.25	3.25	3.88	4.38	4.75	4.63	4.75	4.44	4.13	4.13
six months	5.75	9.25	3.44	3.88	4.38	4.75	4.75	4.88	4.81	4.31	4.19
twelve months	5.50	8.50	3.44	3.94	4.38	4.63	4.69	4.81	4.94	4.38	4.31
Eurosterling:											
one month	14.75	15.37	10.56	10.75	10.25	10.25	9.63	9.56	9.56	9.63	9.19
three months	14.75	15.69	10.44	10.69	10.19	10.25	9.63	9.81	9.75	9.56	9.25
six months	14.25	15.69	10.31	10.63	10.06	10.25	9.88	10.25	10.13	9.56	9.38
twelve months	14.00	15.37	10.31	10.56	10.00	10.31	10.06	10.50	10.50	9.81	9.69
Euro-French franc:											
one month	11.12	15.75	23.00	12.13	12.38	12.50	12.38	12.13	13.00	12.75	12.25
three months	11.75	17.00	24.00	12.31	12.88	13.38	14.94	13.50	15.00	14.31	12.88
six months	12.25	18.00	22.00	13.75	14.38	15.75	16.69	15.25	16.75	15.81	14.00
twelve months	12.87	18.25	19.75	15.00	16.00	17.25	18.00	16.75	16.88	16.19	14.88
Euroyen:											
one month	9.12	6.12	6.75	6.38	6.13	6.31	6.44	6.44	6.69	6.69	6.13
three months	9.25	6.12	6.75	6.38	6.19	6.31	6.50	6.50	6.63	6.69	6.31
six months	9.62	6.87	6.81	6.36	6.19	6.31	6.50	6.56	6.63	6.69	6.31
twelve months	9.37	6.87	6.81	6.44	6.38	6.38	6.50	6.56	6.75	6.69	6.44

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	1981	1982	1983			Jan-Nov	
				Sep	Oct	Nov	1983	1982
Industrial countries	**39 100**	**88 022**	**42 775**	**2 630**	**7 006**	**1 815**	**34 084**	**41 095**
Australia	2 475	1 680	4 721	295	—	30	2 223	4 446
Canada	1 743	4 112	3 838	—	118	—	318	3 778
Denmark	1 720	1 661	789	—	—	—	1 586	770
France	1 745	3 912	5 653	75	222	—	1 560	5 640
Greece	1 333	1 039	770	—	—	250	1 086	770
Ireland	237	1 361	401	—	—	—	621	401
Italy	6 268	6 030	3 657	486	381	66	2 796	3 504
Norway	685	713	2 069	13	—	—	349	1 969
Portugal	745	1 590	1 388	—	500	—	800	1 238
Spain	5 457	3 242	1 849	98	222	50	2 549	1 662
Sweden	1 370	1 867	649	75	—	—	3 175	599
United Kingdom	1 470	747	1 635	—	315	—	1 268	1 635
United States	6 719	54 784	6 566	1 450	4 983	1 335	12 190	6 046
Others[a]	7 133	3 284	8 790	258	265	84	3 563	8 637
Developing countries	**35 054**	**45 264**	**41 515**	**2 056**	**577**	**1 336**	**31 486**	**38 877**
Non-OPEC countries	24 009	33 394	28 733	1 899	540	276	24 479	26 557
Argentina	2 506	2 534	1 565	—	—	—	1 750	465
Brazil	4 158	5 751	5 716	—	—	—	4 475	5 400
Chile	1 322	2 204	1 194	—	—	—	1 319	1 194
Colombia	608	1 030	741	139	100	—	459	671
Korea	1 917	2 824	2 923	995	86	185	3 028	2 800
Malaysia	—	1 725	1 909	60	—	—	920	1 837
Mexico	5 971	7 530	7 953	—	—	—	5 100	7 938
Peru	480	1 407	1 069	5	29	—	500	1 069
Philippines	1 056	1 257	635	—	—	—	715	580
Taiwan	314	928	255	—	—	—	536	255
Other	5 677	6 204	4 773	700	325	91	5 677	4 348
OPEC countries	11 045	11 870	12 782	157	37	1 060	7 007	12 320
Ecuador	1 209	934	815	—	—	—	431	815
Indonesia	1 435	725	1 250	—	—	—	1 166	989
Nigeria	1 330	1 802	2 042	22	—	—	1 836	1 990
United Arab Emirates	101	363	93	61	—	—	801	93
Venezuela	6 715	7 559	6 799	—	—	—	237	6 779
Other	255	497	1 783	74	37	1 060	2 536	1 654
Communist countries	**2 809**	**1 791**	**765**	—	**75**	—	**1 012**	**682**
China	181	370	43	—	—	—	10	10
East Germany	303	470	8	—	—	—	392	8
Hungary	550	550	340	—	75	—	483	290
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	—	—	—	127	374
International organizations[c]	**429**	**302**	**150**	—	—	—	**1 321**	**150**
TOTAL	**77 392**	**133 379**	**85 205**	**4 686**	**7 658**	**3 151**	**67 903**	**80 804**

[a] Includes multinational organizations

[b] Includes COMECON institutions

[c] Includes regional development organizations

p preliminary

r revised

International bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983						
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
U.S. companies:											
U.S. dollar	11.76	12.70	11.28	10.09	9.90	10.03	9.98	10.06	10.15	10 23	10.29
Swiss franc	7.27	7.30	5.76	5.66	5.71	5.88	5.86	5.83	5.84	5.78	5.81
European companies:											
U.S. dollar	12.42	14.29	12.45	11.37	11.17	11.18	11.33	11.48	11.47	11.51	11.40
German mark	8.79	9.36	8.17	7.49	7.16	n.a.	n.a.	7.69	7.66	7.56	7.39
Governments:											
U.S. dollar	11.83	13.59	12.51	11.17	11.09	11.22	11.24	11.51	11.58	11.75	11.73

New international bond issues*

new issues in period, in millions of dollars

	1980	*1981*	*1982r*	*1983*			*Jan-Nov*	
				Sepr	*Octr*	*Novp*	*1983*	*1982*
By type:								
Eurobonds, total	**23 970**	**31 616**	**51 645**	**4 455**	**5 493**	**3 314**	**44 575**	**48 696**
by category of borrower								
U.S. companies	4 107	6 178	12 567	684	345	420	5 532	12 526
Foreign companies	9 032	12 882	13 372	934	1 366	1 153	14 958	12 655
State enterprises	5 839	7 496	14 650	1 545	613	345	9 999	12 970
Governments	3 045	2 629	7 683	806	2 804	969	8 302	7 372
International organizations	1 947	2 431	3 373	486	365	427	5 784	3 173
by currency of denomination								
U.S. dollar	16 427	26 830	43 959	3 695	4 385	2 400	35 586	41 417
German mark	3 607	1 277	2 588	180	116	130	3 412	2 444
Dutch guilder	1 043	529	645	33	51	66	603	645
Canadian dollar	279	634	1 201	61	41	189	963	1 181
European composite units	65	309	1 980	171	611	127	1 861	1 737
Other	2 549	2 037	1 272	315	289	402	2 150	1 272
Foreign bonds outside the United States, total	**14 521**	**13 817**	**20 451**	**1 543**	**2 076**	**1 012**	**20 196**	**19 474**
by category of borrower								
U.S. companies	307	592	1 971	145	255	5	1 312	1 873
Foreign companies	3 157	3 384	4 376	602	508	398	7 029	4 013
State enterprises	2 830	3 701	5 488	153	328	153	3 911	5 409
Governments	4 086	2 762	3 577	299	272	101	2 796	3 445
International organizations	4 141	3 378	5 039	344	713	355	5 148	4 734
by currency of denomination								
German mark	4 839	1 310	2 952	75	173	235	2 412	2 745
Swiss franc	7 617	8 285	11 432	1 260	1 108	444	12 582	10 922
Dutch guilder	259	481	956	33	189	50	1 021	919
Japanese yen	1 088	2 457	3 418	165	365	234	3 305	3 231
Other	718	1 284	1 693	10	241	49	876	1 657
Foreign bonds in the Unites States, total	**3 429**	**7 552**	**5 946**	**370**	—	—	**3 635**	**5 946**
by category of borrower								
Canadian entities	2 136	4 630	3 180	200	—	—	1 645	3 180
International organizations	550	1 375	1 700	120	—	—	1 020	1 700
Other	743	1 547	1 066	50	—	—	970	1 066
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**63 192**	**5 088**	**6 378**	**3 484**	**54 306**	**59 911**
Australia	539	991	2 250	100	849	32	2 214	2 146
Austria	1 859	1 557	1 668	—	25	87	1 165	1 668
Canada	3 797	10 648	11 979	1 051	788	235	6 487	11 710
Denmark	1 125	695	1 269	537	—	248	1 647	1 269
Finland	392	672	815	33	79	—	807	815
France	2 820	3 156	8 456	815	316	37	5 923	7 218
Italy	904	1 108	2 214	170	578	244	1 464	2 214
Japan	5 309	6 928	8 397	818	939	883	12 555	7 768
Netherlands	1 585	630	894	53	75	66	881	865
New Zealand	293	1 107	1 375	—	—	—	455	1 075
Norway	892	530	832	27	175	—	638	832
Sweden	3 244	2 050	2 479	46	1 080	5	3 555	2 267
United Kingdom	1 733	1 408	1 201	208	175	172	1 333	1 181
United States	5 587	6 770	14 538	753	600	425	6 768	14 399
Developing countries	**2 485**	**4 789**	**4 873**	**330**	**113**	**60**	**2 073**	**4 733**
Non-OPEC countries	1 942	4 338	3 833	80	113	60	1 728	3 743
Brazil	349	60	91	—	—	—	—	91
Korea	68	323	172	80	—	—	475	152
Mexico	544	3 012	1 919	—	—	—	—	1 919
OPEC countries	543	431	1 040	250	—	—	345	990
Venezuela	396	291	385	—	—	—	—	385
Communist countries	**65**	**75**	**65**	—	—	—	**75**	**65**
International organizations	**6 638**	**7 163**	**9 912**	**950**	**1 078**	**782**	**11 852**	**9 407**
TOTAL	**41 920**	**52 985**	**78 042**	**6 368**	**7 569**	**4 326**	**68 406**	**74 116**

*Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.

Central bank discount rates

	1979	1980	1981	1982	1983			Current	
	end Dec	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	Nov 22 1983	effective since
United States	12.00	13.00	12.00	8.50	8.50	8.50	8.50	8.50	Dec 15, 82
Canada	14.00	17.36	14.66	10.05	9.42	9.42	9.49	9.60	Nov 17, 83
Japan	6.25	7.25	5.50	5.50	5.50	5.50	5.50	5.00	Oct 22, 83
United Kingdom	17.00	14.00	14.37	10.00	10.56	9.50	9.50	9.00	Oct 4, 83
Belgium	10.50	12.00	15.00	11.50	11.00	9.00	9.00	9.00	Jun 23, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	6.00	7.50	7.50	5.00	4.00	4.00	4.00	4.00	Mar 18, 83
Italy	15.00	16.50	19.00	18.00	18.00	17.00	17.00	17.00	Apr 9, 83
Netherlands	9.50	8.00	9.00	5.00	3.50	4.50	5.00	5.00	Sep 9, 83
Austria	3.75	6.75	6.75	4.75	3.75	3.75	3.75	3.75	Mar 18, 83
Denmark	11.00	11.00	11.00	10.00	8.50	7.50	7.50	7.00	Oct 27, 83
Finland	8.50	9.25	9.25	8.50	8.50	8.50	9.50	9.50	July 1, 83
Ireland	16.40	12.75	17.15	14.35	14.35	13.80	13.00	13.00	July 1, 83
Norway	9.00	9.00	9.00	9.00	9.00	9.00	8.00	8.00	Jun 6, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.00	12.00	11.00	10.00	9.00	8.50	8.50	8.50	Apr 8, 83
Switzerland	2.00	3.00	6.00	4.50	4.00	4.00	4.00	4.00	Mar 18, 83
Argentina	89.90	87.01	98.50	123.81	128.54	128.54	183.75	183.75	Sep 5, 83
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	7.00	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	11.00	13.00	14.00	13.00	13.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	18.90	12.37	8.95	8.77	8.80	8.63	8.98	9.37	9.56	9.45	9.48
Canada	15.61	14.53	10.63	9.40	9.41	9.28	9.45	9.31	9.35	9.25	9.35
Japan	9.49	6.70	6.92	6.69	6.30	6.08	6.20	6.39	6.46	6.15	6.42
Australia	9.51	12.84	11.04	10.61	11.15	11.16	10.87	9.84	10.13	9.80	9.03
United Kingdom	13.00	9.13	6.70	7.50	7.63	6.00	6.63	6.60	6.31	7.30	7.81
Belgium	9.66	12.78	9.43	11.82	9.83	7.45	7.68	7.49	7.61	6.38	6.89
France	10.87	15.46	12.88	12.84	12.55	12.46	12.61	12.40	12.54	12.57	n.a.
Germany	9.13	10.65	6.07	5.49	4.93	5.00	5.05	5.04	5.07	5.43	5.53
Italy	17.50	20.63	19.00	19.00	18.00	18.00	17.80	17.75	17.88	17.69	17.75
Netherlands	8.37	10.67	5.31	4.41	5.18	5.22	5.06	5.29	5.77	5.68	5.82
Austria	11.50	7.50	6.00	5.38	4.88	4.38	4.50	5.00	5.00	5.50	5.63
Finland	12.50	11.30	11.50	13.00	13.00	15.00	15.00	15.00	15.00	16.67	16.95
Ireland	13.31	16.88	14.54	17.63	15.25	14.38	13.62	13.75	12.50	12.63	11.00
Norway	11.00	18.60	11.00	12.25	12.25	12.75	12.00	12.00	12.70	12.30	13.50
Spain	16.74	18.73	20.30	17.68	20.38	21.01	20.10	21.05	23.33	19.85	20.27
Sweden	11.41	13.82	8.63	11.20	11.00	11.00	11.05	11.00	10.15	11.30	12.00
Switzerland	5.75	3.38	1.25	3.13	3.88	3.88	3.00	3.00	2.00	2.00	1.75
Argentina	70.84	84.93	155.32	180.22	196.18	162.81	170.43	210.04	106.40	173.90	258.90
Brazil	62.71	103.74	150.42	164.70	266.06	220.06	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	14.05	10.75	9.13	9.63	10.40	11.38	12.38	7.00	6.81	13.25	18.00
Korea	14.82	14.40	13.84	13.70	13.60	13.40	13.40	12.70	12.70	12.80	12.80
Philippines	15.70	14.70	16.12	14.58	10.93	13.55	13.05	13.59	15.56	16.54	n.a.
Singapore	10.23	3.96	11.45	6.04	9.96	6.63	5.96	8.08	6.33	6.51	7.02
South Africa	5.60	12.34	12.90	8.25	9.71	9.73	10.91	12.29	13.62	13.43	13.66
Eurodollars	19.22	12.29	9.15	8.86	8.90	8.71	9.07	9.42	9.52	9.42	9.44

Treasury bill rates

bond-equivalent yields, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	14.87	11.90	8.15	8.93	8.34	8.75	9.02	9.50	9.52	9.05	8.92
Canada	17.01	14.41	9.80	9.17	9.12	9.25	9.17	9.24	9.32	9.24	9.24
Japan	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	12.17	13.27	9.39	14.11	11.14	11.83	11.93	10.59	10.96	10.34	9.38
United Kingdom	13.45	15.31	9.90	10.41	9.75	9.68	9.29	9.40	9.57	9.21	8.89
Belgium	12.75	16.00	12.25	12.00	10.35	10.00	9.50	9.25	9.25	9.25	9.50
Ireland	12.84	17.35	14.70	14.39	13.81	14.01	12.95	13.09	13.01	12.12	11.96
Italy	16.87	21.36	19.11	18.88	18.27	17.65	17.35	17.35	17.24	n.a.	n.a.
Netherlands	8.00	9.75	5.63	4.50	6.50	5.63	4.63	5.38	6.00	5.88	5.63
Spain	17.20	15.83	16.96	16.56	18.11	21.67	21.52	22.53	22.93	22.24	20.74
Sweden	12.87	9.20	8.18	7.13	7.13	7.13	7.12	7.12	7.13	7.13	7.13
Korea	16.35	16.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Mexico	27.73	33.22	57.44	64.24	62.85	63.04	62.36	61.10	57.89	n.a.	n.a.
New Zealand	11.25	11.25	11.25	11.25	12.00	12.00	12.00	7.80	7.80	7.80	7.80
Philippines	12.74	13.40	14.53	14.55	14.54	14.49	14.00	14.03	14.48	14.71	n.a.
Singapore	6.77	3.03	2.74	2.59	2.59	2.51	2.61	2.59	2.58	2.65	2.63
South Africa	6.31	14.55	14.62	11.35	11.53	11.81	13.96	14.46	16.19	15.49	15.66

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	17.62	12.78	8.81	9.34	8.56	8.63	9.34	9.57	9.52	9.38	9.26
Canada	17.50	15.25	9.95	9.45	9.45	9.50	9.45	9.40	9.50	9.40	9.40
Japan	9.80	6.30	6.80	6.57	6.20	6.36	6.47	6.59	6.61	6.62	6.30
Australia	13.00	16.00	10.65	16.25	12.90	13.00	13.85	12.10	12.20	11.15	11.00
United Kingdom	14.75	15.69	10.50	10.69	10.19	10.25	9.75	10.06	9.75	9.56	9.31
Belgium	13.10	16.00	12.35	12.25	10.45	10.00	9.50	9.25	9.25	9.25	9.60
France	11.56	15.25	12.75	12.70	12.31	12.44	12.50	12.13	12.25	12.50	12.19
Germany	10.20	10.50	6.20	5.30	5.18	5.25	5.55	5.50	5.85	5.80	6.15
Ireland	13.63	18.50	15.75	15.25	15.25	14.75	13.63	13.88	13.38	12.69	12.53
Italy	17.37	21.00	19.00	19.00	17.75	17.75	17.50	17.50	17.60	17.50	17.63
Netherlands	9.37	11.00	5.25	4.25	6.00	6.13	5.38	5.69	5.31	6.25	6.13
Spain	17.40	15.52	16.55	15.66	18.91	21.57	20.76	22.48	24.04	22.06	22.19
Switzerland	7.50	10.12	3.88	4.00	4.50	4.75	4.81	4.85	4.44	4.25	4.25
Hong Kong	17.69	14.18	10.13	9.50	10.06	11.50	12.88	9.88	8.94	12.75	16.88
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	14.25	16.05	16.75	14.00	14.00	16.00	16.75	12.75	10.25	10.00	10.75
Philippines	15.01	17.61	15.91	15.78	14.34	15.57	15.06	15.96	15.62	16.49	n.a.
Singapore	14.12	7.81	8.69	6.56	7.38	7.56	7.81	7.88	7.38	7.38	7.50
South Africa	7.12	15.47	15.26	12.11	12.16	12.21	14.88	14.94	16.61	16.45	16.94

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	16.25	12.62	8.25	9.15	8.40	8.88	9.18	9.65	9.65	9.20	9.30
Canada	17.00	15.20	9.85	9.40	9.35	9.40	9.35	9.35	9.45	9.35	9.35
Japan	9.00	6.50	7.00	6.98	6.40	6.60	6.67	6.80	6.83	6.88	6.45
Australia	12.71	15.65	10.20	15.48	12.82	12.68	14.84	12.05	11.88	10.56	10.96
United Kingdom	14.87	15.69	10.31	10.75	10.19	10.28	n.a.	10.06	9.78	9.50	9.25
Belgium	12.63	15.50	12.25	12.88	10.38	10.13	9.25	9.13	9.25	9.50	9.38
France	11.25	9.16	8.24	8.24	8 24	8.24	8.24	8.24	7.30	7.80	n.a.
Germany	8.00	9.50	6.00	4.75	4.75	4.85	4.90	4.90	4.90	5.63	5.60
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13 25	13.25	13.25
Netherlands	9.50	11.00	5.38	4.25	6.13	6.25	5.50	5.63	5.25	6.13	6.06
Austria	11.25	9.63	6.25	5.50	5.25	4.69	5.00	5.31	5.56	6.06	6.31
Denmark	10.00	10.00	9.00	7.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Finland	5.00	5.00	4.25	4.25	4.25	4.25	4.25	5.25	5.25	5.25	5.25
Ireland	13.63	18.38	15.25	15.13	14.75	14.50	13.25	13.50	13.13	12.25	12.50
Norway	11.00	12.75	13.50	12.50	12.00	12.50	12.50	12.50	12.50	12.50	12.50
Spain	4.50	11.78	12.53	11.98	12.30	12.36	12.47	12.28	12.28	12.24	n.a.
Sweden	9.75	10.25	9.50	8.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Switzerland	7.50	8.75	3.00	2.75	3.50	3.75	4.25	4.00	3.75	3.75	3.50
Argentina	72.00	86.76	103.42	121.66	121.66	121.66	108.28	127.75	139.92	176.41	176.41
Brazil	96.49	110.05	118.26	119.29	128.81	137.28	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	13.00	12.50	7.50	7.50	8.50	11.00	10.50	8.50	8.50	12.00	12.00
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	26.15	31.81	52.54	60.27	60.46	60.35	60.03	59.25	57.33	n.a.	n.a.
New Zealand	13.50	15.50	16.50	12.75	12.75	14.75	16.50	10.00	9.00	9.00	9.50
Philippines	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	13.19	7.50	8.25	6.19	6.88	7.07	7.01	7.44	6.88	6.81	7.07
South Africa	7.87	14.75	15.25	12.00	12.25	12.35	14.75	14.95	16.62	17.00	17.00
Venezuela	16.00	14.75	15.50	16.00	16.00	15.00	14.00	13.50	13.00	12.50	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	21.50	15.75	11.50	10.50	10.50	10.50	10.50	10.50	11.00	11.00	11.00
Canada	18.25	16.50	12.50	11.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Japan	8.16	6.95	6.28	6.27	6.26	6.26	6.25	6.25	6.24	6.25	6.25
Australia	13.50	15.75	15.00	16.00	15.75	15.00	16.00	14.50	14.50	14.00	13.25
United Kingdom	15.00	14.50	10.00	10.50	10.00	10.00	9.50	9.50	9.50	9.50	9.00
Belgium	15.75	18.00	15.50	15.00	14.00	14.00	13.25	12.50	12.50	12.50	12.50
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Italy	20.50	22.50	20.75	20.00	19.50	18.75	18.75	18.75	18.75	18.75	18.75
Netherlands	10.75	12.00	6.25	5.00	5.75	6.25	6.25	6.25	6.75	7.00	6.75
Austria	12.50	13.50	11.75	11.00	9.75	9.75	9.25	9.25	9.25	9.25	9.25
Denmark	13.75	15.00	14.00	12.00	11.00	11.00	10.50	10.50	10.50	10.50	10.50
Finland	9.83	9.84	8.95	8.95	8.97	9.00	9.07	10.07	10.10	10.16	n.a.
Ireland	14.50	17.25	16.50	17.50	16.25	16.25	15.00	15.00	15.00	13.75	13.75
Norway	12.50	13.75	14.50	14.50	14.50	14.50	14.50	14.00	14.00	14.00	14.00
Spain	18.50	17.04	19.00	17.65	19.27	22.40	22.73	23.47	25.19	24.09	23.70
Sweden	11.75	13.50	12.50	11.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Switzerland	5.75	8.00	6.00	5.50	5.50	5.50	5.50	6.00	6.00	6.00	6.00
Argentina	77.00	92.60	109.50	133.63	175.00	170.00	184.00	240.00	152.08	188.58	188.58
Brazil	96.45	138.09	166.49	190.83	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	17.00	16.00	10.50	10 50	11.50	11.50	13.50	11.50	11.50	16.00	15.00
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	24.25	31.81	46.12	56.16	57.21	58.14	58.63	58.73	58.23	57.78	57.14
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	11.00	11.00	11.00
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	13.60	11.83	9.33	9.10	9.03	9.03	8.88	9.00	9.00	8.95	8.93
South Africa	9.50	17.00	18.00	14.00	14.00	14.00	16.00	16.00	18.00	18.00	18.00
Venezuela	15.00	15.50	17.00	17.50	17.50	17.00	17.00	16.50	16.25	16.00	16.00

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	11.46	14.33	10.61	10.85	10.52	10.91	11.20	11.95	11.77	11.65	11.85
Canada	12.69	15.27	11.69	11.70	11.18	11.30	11.56	12.03	12.34	11.76	11.73
Japan	9.04	8.32	7.76	7.80	7.77	7.80	7.78	7.87	7.80	7.58	7.51
Australia	13.00	15.00	13.00	15.00	13.85	14.80	15.10	15.00	14.60	14.40	13.70
United Kingdom	13.05	15.02	10.62	10.52	10.28	10.10	10.12	10.71	10.65	10.15	10.13
Belgium	13.04	13.99	12.66	12.49	11.59	11.63	11.53	11.42	11.46	11.39	11.32
France	14.31	16.44	15.40	14.65	14.55	14.55	14.52	14.04	13.96	14.03	n.a.
Germany	9.19	9.71	7.90	7.61	7.74	8.09	8.11	8.27	8.55	8.43	8.30
Italy	16.23	21.39	19.62	18.76	18.11	18.13	18.22	18.42	18.11	n.a.	n.a.
Netherlands	10.48	11.28	8.16	8.19	8.83	9.30	9.00	9.08	9.03	8.80	8.53
Austria	9.62	10.37	8.81	8.18	8.09	8.07	8.14	8.18	8.31	8.32	n.a.
Denmark	19.98	20.91	20.14	15.16	14.27	14.34	15.54	15.63	14.97	n.a.	n.a.
Finland	10.42	10.98	10.64	10.59	10.58	10.89	10.55	10.58	11.20	10.97	11.19
Ireland	15.63	18.28	14.54	13.96	13.62	13.51	13.61	13.81	13.60	13.72	13.82
Norway	10.44	12.37	13.32	13.00	12.75	12.75	12.50	12.50	12.50	12.50	12.50
Spain	16.15	16.20	15.92	16.47	17.05	17.31	17.63	17.60	18.31	18.76	n.a.
Sweden	12.61	12.80	13.01	12.59	12.22	12.14	12.17	11.85	11.24	12.20	12.20
Switzerland	4.63	5.40	4.22	4.46	4.42	4.51	4.59	4.76	4.73	4.71	4.61
New Zealand	12.99	12.55	12.84	12.69	13.95	14.00	13.59	14.02	n.a.	n.a.	n.a.
Philippines	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	11.81	13.62	11.31	12.17	12.26	12.85	14.15	13.27	13.16	12.93	13.33
Venezuela	7.39	12.50	15.00	15.50	15.75	15.75	15.75	15.00	15.00	14.00	14.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	13.00	15.50	11.75	11.63	11.00	11.75	11.75	12.75	12.50	12.25	12.63
Canada	13.62	16.48	13.05	12.92	12.29	12.59	12.47	13.09	13.24	12.63	12.64
Japan	8.60	7.70	7.55	7.39	7.37	7.16	7.30	7.34	7.32	7.30	7.29
Australia	14.25	16.50	15.00	16.25	16.00	16.00	16.00	15.75	15.50	15.00	15.00
United Kingdom	14.21	16.55	12.34	12.34	12.14	12.12	11.89	12.34	12.27	11.89	11.84
France	15.23	17.33	15.91	15.03	14.87	14.85	14.86	14.76	14.48	14.36	n.a.
Germany	9.50	10.50	8.20	7.60	7.30	7.40	7.90	8.00	8.10	8.30	8.30
Netherlands	10.71	11.03	7.80	7.86	8.65	8.91	8.79	8.75	8.79	8.68	8.39
Norway	11.24	13.36	14.13	13.75	13.50	13.50	13.25	13.25	12.25	13.25	13.25
Spain	14.82	14.76	17.10	17.02	17.22	16.77	16.86	18.00	19.59	20.05	20.37
Sweden	11.95	12.94	13.37	13.34	12.85	12.89	12.79	12.85	12.77	12.99	12.40
Switzerland	5.63	6.60	5.92	5.93	5.98	5.94	6.06	6.10	6.21	6.43	6.27
Korea	28.20	27.00	15.90	14.40	14.00	13.90	13.90	13.90	13.90	14.20	14.10
Venezuela	16.15	17.00	18.00	18.00	18.25	18.00	18.00	18.00	18.00	18.00	18.00

Key to data in tables

I. International markets

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

Categories of borrower

U.S. companies include both parent companies and their financing affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Country of borrower

The country of the borrower is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

International bond yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield.

The yield indices are simple arithmetic averages of end-of-month secondary market yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers. Occasionally the individual issues in each category are changed.

The number of issues represented in each of the indices is as follows:

Long-Term, U.S. companies, U.S. dollar — —ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc — four foreign bond issues.

Long-term, European companies, U.S. dollar — ten Euro-bond issues.

Long-term, European companies, German mark — ten Euro-bond issues.

Long-term, governments, U.S. dollar — six Euro-bond issues (governments of Italy, Denmark, and France).

Euro-currency deposit rates

All data are prime banks' bid rates for deposits in London. Offer rates commonly used as a basis for Euro-dollar lending are generally .125% above bid rates.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — overnight financing of Treasury bills (LTN) until November 1978. New series as of December 1978, rates paid for federal funds.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Euro-dollars — prime banks' bid rate for overnight money.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit.

Sweden — new issues of 3-month Treasury bills.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

United Kingdoin — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month negotiable certificates of deposit of investment banks net of taxes.

Canada — 3-month time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Key to data in tables — continued

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 3-month time deposits until April 1979. New series as of May 1979, 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month time deposits issued to ordinary savers until June 1975. New series, as of July 1975, 3-month special term deposits.

Philippines — 3-month time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — deposits at 6-months' notice.

Switzerland — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for large amounts until December 1978. New series as of January 1979, similar rate for domestic depositors only.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — weighted average investment bank lending rate for multinational companies including tax on financial obligations (IOF).

Canada — prime rate.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .333% prior to July 1978, .25% thereafter, per quarter on the total line of credit.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — maximum legal rate for discounting commercial bills plus a commission of 1% per annum until December 1979. New series as of January 1980, preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — actual interest rate on 3-month loans to prime industrial borrowers.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

United Kingdom — clearing bank base lending rate.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for prime borrowers until December 1978. New series as of January 1979, similar rate for domestic prime borrowers only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 10% government bond maturing 1983 until December 1977; 10% government bonds maturing 1986 until September 1980. New series as of October 1980, 12% serial bonds maturing 2001.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

South Africa — 25-year government bonds until August 1983. New series, as of September 1983, 20-year Republic of South Africa bonds.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Domestic corporate bond yields

Australia — long-term secured debentures, indicated by Australian United Corporation.

Canada — McLeod, Young, Weir Co. Ltd., average yield on ten industrial bonds.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — FAZ 6% industrial bond average until September 1978. New series as of October 1978, Bundesbank average yield on industrial bonds

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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World Financial Markets

Morgan Guaranty Trust Company of New York

December 1983

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Europe's economic woes

The failure of this month's European Community summit in dealing with budget issues and the Common Agricultural Policy dramatized the seriousness of Europe's economic problems. Resolution of political and economic differences among EC members has always been difficult. But in the prosperous years before 1973, rapid economic growth provided a relatively painless solution, and the Community made impressive strides toward a genuinely common market. After the first oil shock, however, momentum was lost and such structural problems as inflation, public-sector excesses, obsolete industrial structures, and labor market rigidities became ever more evident. Stagnant employment and rising joblessness have fostered pursuit of narrow national interests and have handicapped constructive political and economic evolution of the Community.

European economic recovery from the second oil shock has been very weak, relative both to previous cyclical experience and the surging U.S. expansion. Europe's growth prospects are only a little better for 1984 and promise no reversal in the dramatic increase in unemployment that has occurred over the past few years. There are now about 12 million unemployed workers in the European Community alone.

The slow, hesitant pace of European recovery has two immediate causes. First, stagnation in most export markets has blunted external demand. Second, domestic priorities, particularly the desire to curb inflation and to reduce budget deficits, have largely precluded policy measures to stimulate domestic demand. Recovery has also been inhibited by serious structural problems that will have to be tackled before Europe's potential for stronger growth can be realized.

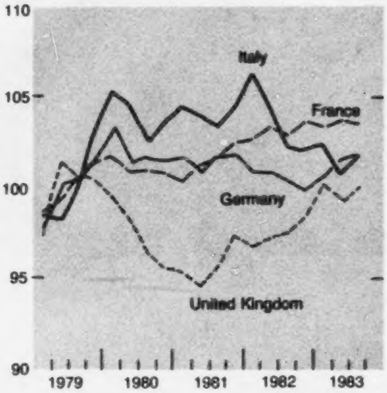
The hope remains that deficit reduction and public-spending curbs will eventually contribute to higher growth by releasing resources to the private sector, even though growth has clearly suffered in the short run. Private investment should benefit from the decline in real interest rates expected as government borrowing declines. This strategy contrasts sharply with that in the United States, where the fiscal deficit is spurring vigorous economic expansion but raises questions about long-term sustainability.

If European investment is to grow rapidly, the profitability of the private sector has to increase. It can be bolstered by tax incentives, reduced social charges, and less-regulated labor practices. Slower

Chart 1

*Real GNP**

index, 1979 = 100
quarterly averages

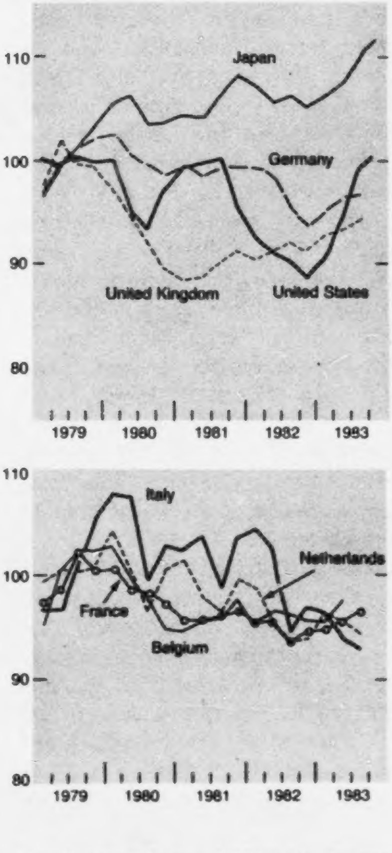


* GNP for the United States, Japan, and Germany; GDP elswhere. This applies in all subsequent references to GDP.

Chart 2

Industrial production

index, 1979 = 100
quarterly averages



increases in real wages overall and greater flexibility in wage structures are also needed. Such measures to restore the health and competitiveness of the private sector are the only hope for European nations to arrest the further rise of unemployment.

Economic developments in 1983

Real GDP of the four major European economies as a group has expanded this year by rather less than 1% — positive, but hardly a decisive break with the stagnation that has generally prevailed since 1979 (see Chart 1). That stagnation stands out even more starkly when measured by changes in industrial production and employment. At its trough toward the end of 1982, industrial production of the major four was 6% lower than at the end of 1979 (see Chart 2). The total number of employed workers in these economies is thought to have fallen 3% between 1979 and 1983. Increases in the labor force were not absorbed, and the unemployment rate rose sharply. With a modest recovery in domestic demand this year, however, industrial production has begun to increase and unemployment has leveled out, at least in Germany and the United Kingdom.

European economies can be placed in two categories. Germany, the United Kingdom, and the Scandinavian countries have achieved some recovery in 1983 and should expand further in 1984. Most other economies in Western Europe — notably France, Italy, and the Benelux countries — have stagnated. Their governments seek to lower inflationary pressures and to cut fiscal and external payments deficits. Significant economic growth will not resume in these economies before the second half of 1984.

The United Kingdom has been recovering slowly since 1981. By the third quarter of 1983, real GDP had finally surpassed its former peak in 1979. Britain's recovery has depended entirely on domestic spending. Aggregate demand was bolstered initially by a slower pace of inventory liquidation, but since the middle of 1982 consumer spending has risen strongly and continues robustly even now.

Britain's manufacturing sector, which was devastated in the recession, has recovered little. Manufacturing output in October 1983 was still 17% below its 1979 high and no stronger than in late 1981. Recession and the fall in manufacturing output led to an immense increase in U.K. unemployment, from 5% in 1979 to a peak of 12.7% last spring before a slight drop in recent months (see Chart 3). The number of unemployed has reached about 3 million, and employment in the manufacturing sector has dropped 25%.

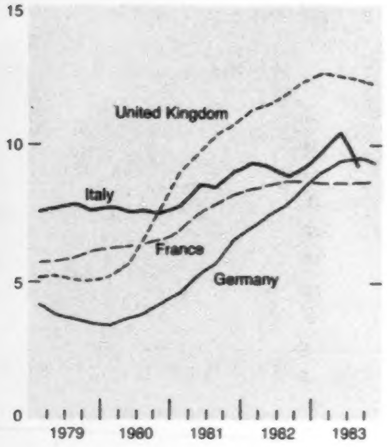
U.K. inflation — over 20% at one stage in 1980 — has fallen to only 5% in the 12 months ended in October. Recessionary pressures and sterling's high real exchange rate contributed to the drop. Heightened foreign competition and sluggish domestic demand have stimulated strong efforts to cut industrial costs by improving productivity and shedding excess labor. More important, wage increases have come down. Earnings are now growing at an annual rate of about 8%, compared with a 26% peak in 1980, while unusually rapid productivity gains are holding down unit labor cost increases.

Germany's economic recovery began toward the end of 1982. Real GNP, which declined throughout 1982, rose at an annual rate of 2.5% in the first nine months of 1983. Although growth paused temporarily in the third quarter, real GNP was 1.3% higher than a year earlier. In-

Chart 3

Unemployment rates

monthly averages in percent



dustrial production has risen 5% from the trough in late 1982 but remains well below its previous peak. Since the end of 1981 the number of unemployed workers increased over 50% to 2.3 million. The unemployment rate, 3.8% in 1980, climbed past 8% in 1982 and has recently leveled out at about 9.4%. Despite the improving economy, however, Germany's manufacturing employment continues to fall, with a 9% cumulative decline since 1980 as of mid-1983.

As in the United Kingdom, and in the face of declining exports, recovery in Germany was led by growing domestic demand. There has been a sharp decline in the savings rate, which is now about 13% compared to an average 14.4% in 1982. This enabled private real consumption to grow close to 8% annualized in the first quarter, although consumption has since plateaued. Increases in investment and construction spending now provide the main support to domestic growth. By the third quarter, investment spending on machinery and equipment was 3.5% higher in real terms than a year ago while construction spending rose 1.5%. Rising manufacturing orders point to continuing increases in investment spending in the months ahead.

Germany's 1982 recession and higher unemployment have brought down inflation. The 12-month increase in the CPI reached 6.3% at the end of 1981 but fell to 4.6% in December 1982 and to a low of 2.4% in June. In November the increase was 2.6% from a year ago. Lower wage increases and an increase in productivity have combined to reduce German unit wage costs. In the first half of the year these were down 1.7%.

In contrast to the recoveries in Germany and the United Kingdom, real GDP is projected to decline this year by about 0.2% in France and 1% in Italy. High real interest rates and declining exports are to blame in Italy, while the stagnation in France results from a temporary wage-price freeze in 1982 and the austerity package adopted by the government in conjunction with the EMS realignment last March.

French consumption has held flat in real terms. A fall in the savings rate has prevented a decline in consumer outlays even though real disposable incomes have decreased. Investment has sagged. In the third quarter real gross fixed investment was 3.6% lower than a year ago. Both business investment and residential construction have been declining. Residential construction began to slide in late 1981. Business investment declined sharply after the implementation of the austerity package but had already been falling since mid-1982.

The French austerity package has succeeded in reducing imports. Declining domestic demand and the increase in competitiveness acquired through the EMS realignment have also spurred a rise in exports, particularly to Germany. Sooner than expected, increasing export volume and declining import volume have each helped narrow the current account deficit. The current account even showed a surplus in the third quarter, following a large deficit earlier in 1983.

The austerity package has been less successful in curbing inflationary pressures. Inflation has declined somewhat, helped by the temporary wage-price freeze implemented at the end of 1982 and the informal price restraints imposed since then. On a 12-month basis, the increase in the CPI fell from 14% at the end of 1981 to 9.4% at the end of 1982, but it was again above 10% this past October. The original government target of 8% inflation for 1983 is unattainable; the more likely outcome is 9.5% or higher. The princi-

Table 1

Export shares in GDP

	Merchandise exports	
	$ billions	*As % of GDP*
EC	573	24.2
Germany	176	26.7
France	92	16.9
Italy	73	20.9
United Kingdom	97	20.4
United States	211	6.9
Japan	138	13.0

Table 2

Export volume

percent change

	Latest month	*Latest month from year earlier*	*Year to-date from year earlier*
Germany	Sep	4.2	—1.8
France	Sep	7.3	3.4
Italy	Aug	—2.7	—0.5
United Kingdom	Oct	3.3	0.5

Table 3

Europe's export markets: distribution and growth

	*Shares in total exports, 1983 first half**					
	Industrial countries			*Developing countries*		
	Total	*Intra-EC*	*North America*	*Total*	*OPEC*	*Socialist countries*
EC	75.9	53.3	7.7	18.1	8.2	3.8
Germany	76.5	49.3	7.3	15.8	7.6	5.2
France	69.5	49.4	6.1	24.5	9.3	4.7
Italy	68.2	46.5	7.8	24.4	13.9	4.3
United Kingdom	74.1	44.3	14.3	21.7	9.4	2.0

	Percent change in dollar terms, 1983 first half from 1982 first half						
		Industrial countries			*Developing countries*		
	Total	*Total*	*Intra-EC*	*North America*	*Total*	*OPEC*	*Socialist countries*
EC	—5.6	—4.6	—3.6	1.4	—13.6	—18.6	12.4
Germany	—5.6	—5.6	—4.6	—3.6	—12.6	—21.6	7.4
France	—5.6	—4.6	—4.6	—0.6	—12.6	—22.6	27.4
Italy	—7.6	—6.8	—5.6	—7.6	—14.6	—14.6	17.4
United Kingdom	—10.6	—7.6	—5.6	0.4	—19.6	—23.6	2.4

*Unallocated exports cause reported shares to total less than 100%.

pal reason for the stickiness in inflation is the continuing increase in wages. French productivity gains have offset little of the impact of high nominal wage increases on unit labor costs. Also, there has been much less labor shedding in France than in other economies in the face of stagnant output. The unemployment rate rose from 7.6% in 1981 to 8.6% in 1982 and has held relatively stable at that level. Meanwhile manufacturing employment fell 6% from the beginning of 1981 through mid-1983.

Export weakness

The slowdown in international trade has had a strong depressing effect on Europe, where exports are a larger component of GDP than in the United States or Japan (see Table 1). For the EC as a whole, export volume rose only about 0.5% in the first half of this year from a year earlier, and foreign sales were down 5.7% in dollar terms. However, measured from the lows of late 1982, European export volumes have strengthened significantly (see Table 2).

The bright spot for European exporters this year has been North America, where strong economic growth and the appreciation of the dollar have raised demand for imports. Although EC exports to North America increased less than 2% in dollar terms in the first six months of 1983, compared with the first half of 1982 (see Table 3), they have been quickly rising since the spring according to U.S. import data. Particularly strong gains were recorded for France and Britain among the major four. Still, exports to the United States and Canada are not enough, by themselves, to give European economies a major boost, because less than 8% of overall EC exports are destined for North America.

Elsewhere, Europe's export markets remain weak. This is especially true of developing countries, which, absorbing 18% of EC export sales, together constitute a much larger market for European exporters than does North America. EC exports to developing countries in the first half of 1983 fell 14% in dollar terms, principally because OPEC countries cut back spending in the wake of the decline in oil prices and their shift into current account deficit. EC exports to Latin America also fell sharply as the debt crisis enforced austerity.

More than half of EC exports go to other EC countries. Because of this interdependence, economic slowdown in Europe is self-reinforcing, with weak demand in one country inducing economic weakness in neighboring countries. This in turn reduces aggregate demand in the first economy as exports fall. In the first half of 1983, intra-EC exports were down 3.6% in dollar terms from those in the first six

Table 4

*Budget balances**

percent of GDP

	1981	*1982*	*1983*
General government balance**			
Germany	—4.0	—3.9	—3.3
France	—1.9	—2.6	—3.4
Italy	—11.7	—12.0	—12.0
United Kingdom	—2.5	—2.0	—2.5
United States	—1.0	—3.8	—4.4
Japan	—4.0	—4.1	—3.4
Discretionary change***			
Germany	+0.2	+1.5	+1.3
France	—1.1	+0.2	0.0
Italy	—2.4	+1.2	+1.5
United Kingdom	+2.8	+1.8	0.0
United States	+1.0	—1.1	—0.6
Japan	+0.6	+0.1	+1.4

*Source: OECD and MGT estimates.

**General government includes all levels of government and the social security system, but excludes state enterprises.

***Positive figures indicate shift toward surplus through policy restriction.

Table 5

Government spending

percent of GDP

	1961	*1971*	*1981*
EC	33.0	39.0	50.0
Germany	33.8	40.2	49.3
France	35.7	38.3	48.9
Italy	29.4	36.6	50.8
United Kingdom	33.4	38.4	47.3
United States	29.0	32.3	35.4
Japan	17.4	20.9	34.0

months of 1982, implying at best a modest increase in volume terms. Intra-EC trade would have contracted had not domestic growth boosted the imports of Germany and the United Kingdom. French exports, which rose almost 8% in volume in the third quarter from a year earlier, are particularly benefiting from increased German and U.K. demand.

Policy directions

Where recovery has occurred in Europe it has been led by domestic demand stimulated by expansionary monetary policies. Fiscal policy is dominated by the perceived need to reduce government spending and deficits. Following the second oil-price shock, most governments simultaneously adopted deflationary policies to inhibit a spiraling inflationary process. Despite the subsequent recession, fiscal policy has aimed to cut budget deficits through expenditure cuts and tax increases. But weak economic growth has tended to raise the deficits by increasing outlays for unemployment and other welfare benefits and by lowering tax revenues (see Table 4). Except in Britain, this cyclical influence outweighed discretionary deficit-reducing measures during 1981-82, so that actual budget deficits widened. Deficits now are fairly stable or shrinking in most major countries except France, where the deficit has again increased in 1983.

European concern with public spending and deficits is more than a passing response to the inflationary shock of the second oil-price increase. With income transfer programs in the vanguard, government spending has increased sharply over the past two decades (see Table 5), especially during the 1970s. For the EC as a whole, total government spending as a percent of GDP rose from 33% in 1961 to 39% in 1971 and exploded to 50% of GDP in 1981. Now there is a perceived need to reduce the size of government in order to release resources to the private sector and to revitalize entrepreneurship.

Accordingly, policymakers are reluctant to employ fiscal stimulus to give a short-term boost to recovery. The objectives of curbing deficits and halting the growth of government cannot be abandoned without drastically reducing long-run economic growth. Further increases in government spending and taxes would debilitate incentives in the private sector and cripple investment.

With fiscal policies dedicated largely to long-range objectives, monetary policy has become the main mechanism for boosting growth. Easier monetary policy has helped stimulate recovery in Germany and the United Kingdom. In France, by contrast, monetary policy has been tightened slightly as part of the austerity program. Real interest rates have risen and monetary growth has slowed. Italy also is pursuing a relatively tight monetary policy to fight inflation and to help offset the expansionary effects of the large public-sector deficit.

The major monetary thrust for recovery occurred in the second half of 1982. European interest rates declined as U.S. interest rates fell, stimulating interest-sensitive sectors, such as construction. But since the summer, most European interest rates have risen slightly while inflation rates have continued to fall (see Chart 4).

While German monetary policy is still expansionary, it has become less so over the course of the year. CBM (central bank money, the aggregate targeted by the Bundesbank) is growing just above its 4%-7% target range, but its growth has decelerated from 11% annualized

Chart 4

Real short-term interest rates
in percent

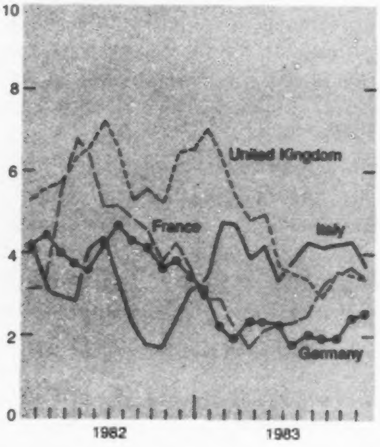


Table 6

Current account
billions of dollars

	1982	*1983**	*1984**
Germany	3.5	4.0	5.5
United Kingdom	9.5	0.0	2.0
France	—12.1	—4.2	—0.5
Italy	—5.8	—2.6	—0.7
Total	—4.9	—2.8	6.3
United States	—11.2	—38.0	—60.0
Japan	6.9	21.3	24.7

*Forecast.

Table 7

Real GDP
percent change

	1982	*1983**	*1984**
Germany	—1.1	0.9	2.5
United Kingdom	1.8	2.8	2.0
France	1.8	—0.2	0.0
Italy	—0.3	—1.0	0.0
Total	0.5	0.8	1.3
United States	—1.9	3.4	5.2
Japan	3.0	3.2	4.2

*Forecast.

in the first quarter to 6% in the third quarter. Because inflation has declined, the real money supply now is growing faster than in 1982, when CBM grew 6.1% on a fourth-quarter over fourth-quarter basis.

The United Kingdom experienced a similar money supply surge earlier this year, accommodating a period of fiscal ease before the election. The monetary aggregates have been growing more slowly since then but are close to the top of their target ranges. On that reckoning U.K. policy is stimulative. U.K. monetary ease is also suggested by the drop in nominal interest rates and the 8% decline in sterling's effective exchange rate since the summer quarter of 1982.

Given the continuing mood of fiscal retrenchment, expansionary monetary policy in Europe must continue to play an important role in supporting economic growth next year.

Declining U.S. interest rates or a weakening of the dollar may provide additional scope for lowering European interest rates in 1984 without raising questions about imported inflation. Still, high U.S. interest rates and the strong dollar are not the main constraints on European interest rate reduction, given German and British commitment to domestic monetary control. To make effective use of any room for maneuver afforded by dollar depreciation, if and when this occurs, European monetary authorities will have to be willing to raise their monetary growth targets or countenance some overshooting of the targets, as in the case of the Bundesbank, which has marginally lowered its target to 4%-6% for 1984 from 4%-7% in 1983.

Short-term outlook and medium-term prospects

Shrinkage of the French and Italian current account deficits (see Table 6) should permit both countries to relax their present severe restraint of domestic demand and thereby bring an end to their recessions during 1984. Renewed growth of these key export markets will accelerate Germany's overall economic recovery next year. Meanwhile, the British economy should continue to expand, though by less than this year's 2.8%. Real GDP of the four major European countries as a group is projected to advance 1.3% in 1984, about double this year's performance (see Table 7). Nonetheless, European recovery expectations for 1984 are weak in historical perspective or by comparison with the U.S. expansion. And, if present policies continue, Europe's economic growth will remain subdued even beyond 1984, averaging only 2%-2½% at best.

Some further decline in European inflation is anticipated in 1984 (see Table 8). While the inflation rate should stabilize in Germany and the United Kingdom, it will continue to fall in higher inflation economies, such as France and Italy. In the medium term, inflation may accelerate slightly as the recovery matures, productivity gains lessen, and wage and raw material price increases raise unit costs. But an investment-led recovery would minimize the reacceleration of inflation by increasing capacity and raising productivity to offset wage increases. A declining dollar also would reduce inflation in Europe by lowering import costs.

Unhappily, the moderate medium-term economic growth currently projected for Europe is scarcely higher than expected annual productivity increases and thus cannot be expected to reduce significantly the high level of unemployment that now exists. Yet no strategy that fails to promise lower unemployment over the next few years can be politically acceptable indefinitely. Economic

Table 8

Consumer prices

percent change, December/December

	1982	*1983**	*1984**
Germany	4.6	2.7	2.6
United Kingdom	5.4	5.5	6.0
France	9.4	9.5	7.0
Italy	15.3	13.5	12.5
Total	7.9	7.0	6.3
United States	3.9	3.5	5.5
Japan	2.4	2.0	2.0

*Forecast.

Table 9

Total labor force

average annual percent change

	1975-79	*1979-82*	*1983*
Germany	0.0	0.7	—0.1
France	0.9	0.7	—0.8
Italy	1.3	1.0	0.9
United Kingdom	0.7	—0.3	0.1
United States	2.8	1.6	1.1
Japan	1.3	1.1	1.2

Table 10

Total employment

average annual percent change

	1975-79	*1979-82*	*1983*
Germany	0.7	0.0	—2.0
France	0.4	—0.5	—1.0
Italy	0.8	0.5	0.5
United Kingdom	0.3	—2.4	—0.6
United States	3.5	0.3	1.2
Japan	1.2	0.9	1.2

policy thus has to focus on measures that can increase employment without generating inflationary pressures.

High unemployment cannot be attributed to a single source. Rapid increases in the labor force, low economic growth, high real wages, and labor market rigidities have all played an important role. Policy measures must, in turn, address each of these issues. Many European economies, Germany's in particular, have experienced a bulge in the work force, with many young people and women entering the labor market (see Table 9). Labor force growth is expected to moderate in the second half of the 1980s, which should allow unemployment to level out or decline somewhat, even if employment trends show scant improvement over the record since the first oil shock (see Table 10).

Low growth and recession since 1980 have contributed in a major way to the increase in European unemployment. For more rapid growth, several policy changes and structural adjustments are needed. First, domestic policy must focus on stimulating domestic demand, particularly investment. Europe cannot rely on exports as the only, or even the principal, expansionary force because developing-country markets will be slow to recover, and a rapid increase in exports to the United States alone will not sustain growth in Europe. The interdependence of the European economies implies that a concerted, coordinated European expansion of domestic demand would benefit all the European economies without inducing large external imbalances.

Encouragement of domestic investment is important because other components of domestic demand are unlikely to expand rapidly. Government spending will be restrained. Private consumption will increase only slowly, in line with rising real income. The declines in savings rates, which have boosted consumption spending in Germany and the United Kingdom and sustained it in France, cannot continue indefinitely.

Additional investment is a priority for the European economies, not only as a source of demand but also to provide the supply capacity to sustain higher long-term growth. As expected, low capacity utilization resulting from Europe's recession and slow growth of the early 1980s has deterred investment. EC investment spending as a percentage of GDP has declined since the oil-price increase of 1973 to a level well below that typical of the 1960s (see Table 11). The decline is particularly sharp in Germany. By contrast, gross fixed capital investment as a percentage of GNP has been unchanged for the United States. The ratio has declined in Japan since 1973 but is higher than in the 1960s.

Fiscal policy could promote investment through such techniques as temporary investment tax credits. More important, the fiscal consolidation that is now occurring makes room for investment in the medium term by lowering public-sector credit demands. Governments could further spur investment by underwriting aggregate domestic demand through temporary fiscal stimuli that do not result in a larger role for government in the long run. Additional income tax cuts would be useful once the current phase of fiscal consolidation is well under way. Indeed, in Germany, where tax cuts for the mid-1980s are already under discussion, an income tax reduction would be one way to counter potential economic weakness in 1984, should private consumption falter. Business tax cuts that raise profitability would increase incentives for investment, and policies that encourage small business through various tax pro-

Table 11

Investment shares in GDP

gross fixed capital formation as of % of GDP

	1960-67	*1968-73*	*1974-81*	*1983**
EC	21.9	22.5	20.8	18.8
Germany	25.2	24.4	21.2	21.0
France	22.3	23.5	22.3	20.0
Italy	21.7	20.6	20.0	18.0
U.K.	17.6	18.7	18.2	15.9
United States	18.0	18.3	18.3	16.3
Japan	31.3	34.7	31.9	28.5

*Estimated, first nine months.

grams could also prove an important way to encourage medium-term growth.

Structural reforms of the labor market also are needed, as indicated by the lack of employment gains even when the European economies were growing in the latter part of the 1970s. High real wages and more importantly, perhaps, nonwage labor costs, such as fringe benefits and social charges, have clearly contributed to the stagnation of employment in Europe. Excessive labor costs have been a major source of the drastic decline in business profitability in all European countries during the past ten years. The decline in profitability and the anticipation of even higher wage and benefit costs in the future have seriously impaired investment incentives. They also bias investments toward less labor-intensive processes. Lower labor costs will improve profitability and help ensure that investments strengthen employment rather than destroy jobs.

Other policies, such as early retirement and shorter work weeks, may also help increase employment, provided nominal wages actually decline in line with the fall in hours worked. Otherwise these measures may increase the real cost of labor and lead to even less employment, a risk quite plain from adverse French experience.

In order to achieve rising living standards in the years ahead, Europe must move toward more dynamic economic structures and institutions. The recent failure of the EC summit meeting shows how calcified some European institutions, notably the Common Agricultural Policy, have become. Far more time and resources are being spent protecting politically sensitive sectors, such as agriculture and basic steel, than are being invested in making these sectors and the labor force adapt to new competitive realities. The development of new technologies and products is hindered by the diversion of resources to failing industries and uncompetitive agriculture. Moreover, notwithstanding the expectations of many European policymakers, tariff barriers and protectionism — whether toward the outside world or among member states of the Community — are unlikely to foster new technologically advanced industries that can compete in world markets. Sheltered industries rarely produce efficiently.

A dynamic economy invariably implies structural change and must involve the decline of some industries. It is widely recognized that future employment growth in mature industrial societies will be less in traditional manufacturing than in high technology, services, and communications. Yet narrow national interests, procurement policies, and capital market rigidities handicap high technology in Europe, while the EC does not yet offer a true common market in services and communications. Failure to integrate national markets more fully places Europe at a distinct disadvantage in the world of the 1980s.

Statistical appendix

for key to data in tables see pages 18 and 19.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers 1980-82=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1979	90.8	100.4	99.5	94.6	106.0	99.8	112.9	90.9	96.7	106.8	100.3	114.5	97.1	114.4	96.6	103.5
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.1	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1982																
December	111.3	99.5	103.0	96.7	91.6	106.7	92.1	92.9	103.8	90.8	105.7	83.9	107.3	98.2	98.2	81.2
1983																
January	109.7	100.2	106.7	97.3	91.8	106.9	92.8	89.4	103.6	91.1	106.3	82.6	111.3	98.9	97.4	81.0
February	111.0	100.5	105.9	96.8	91.9	107.0	92.6	88.2	103.6	91.0	106.2	81.9	110.3	98.6	98.0	81.1
March	112.0	100.9	105.8	89.3	90.8	108.9	91.3	86.4	104.8	92.2	106.5	80.5	108.4	98.7	97.8	81.2
April	112.5	100.4	106.4	87.5	87.7	109.1	91.3	90.2	104.4	91.5	105.1	80.1	109.9	96.7	98.7	81.5
May	112.2	100.6	107.9	88.2	86.8	108.5	90.8	92.9	104.0	90.8	104.8	79.5	110.6	97.5	99.3	81.7
June	114.3	100.8	106.6	89.1	86.1	107.6	90.7	93.6	103.1	90.2	104.6	78.3	110.6	96.2	99.5	82.2
July	115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August	117.0	101.2	106.2	91.5	85.6	106.5	89.6	91.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85 4	108 0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November	116.4	100.9	110.8	94.8	85.1	107.1	88.3	92.7	103.3	88.4	104.4	75.9	112.8	94.7	100.9	82.7
November 4	115.8	101.1	110.4	94.1	85.4	107.5	88.3	92.8	103.6	88.6	104.7	75.9	112.4	95.0	100.8	82.6
11	116.2	101.0	110.3	94.4	85.3	107.3	88.2	93.1	103.2	88.4	104.5	75.7	112.5	94.7	100.8	82.7
18	116.5	100.9	110.7	95.1	85.0	107.0	88.5	93.0	103.4	88.4	104.4	76.0	112.7	94.8	101.0	82.8
25	116.8	100.9	111.0	95.3	85.0	107.0	88.4	92.5	103.1	88.3	104.3	76.0	112.9	94.4	101.0	82.8
December 2	116.9	100.7	111.8	95.2	85.0	106.9	88.3	91.9	103.1	88.4	104.4	76.0	113.7	94.4	101.1	82.8
9	117.7	100.4	111.8	94.6	85.0	106.7	88.0	91.9	102.8	88.3	104.2	75.7	113.5	93.9	100.2	83.0
16	118.6	100.3	111.9	94.4	84.5	106.7	88.2	91.3	103.0	88.2	104.1	75.7	113.6	94.1	99.4	83.2

Real effective exchange rates

Index numbers 1980-82=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1979	88.0	100.1	105.6	91.7	101.2	107.1	100.8	85.1	99.7	114.5	102.3	103.6	108.5	112.0	94.1	100.0
1980	89.5	99.6	103.1	93.1	102.2	103.5	103.5	99.2	100.2	107.5	100.0	102.0	98.7	103.7	96.4	101.3
1981	100.7	100.0	104.7	102.8	100.2	97.4	98.7	101.9	99.1	100.3	97.7	99.1	98.8	99.8	101.2	102.1
1982	109.8	100.4	92.3	104.1	97.7	99.1	97.8	98.9	100.7	92.1	102.1	99.0	102.5	96.9	102.4	96.5
1982																
December	111.9	99.5	94.2	102.4	97.1	100.7	99.1	95.0	102.2	91.0	103.4	91.7	102.9	100.0	99.2	88.0
1983																
January	109.4	100.7	97.6	103.7	96.9	100.5	100.9	91.9	102.3	91.3	104.4	91.3	106.2	100.8	98.7	88.9
February	110.2	101.4	96.8	103.7	98.4	99.8	99.9	90.8	102.5	92.8	103.6	91.5	104.9	100.9	100.0	88.6
March	110.6	102.7	96.5	96.3	97.6	101.1	99.7	89.2	103.8	94.0	103.5	90.3	103.0	101.0	99.3	88.7
April	110.4	103.0	96.1	94.6	96.1	100.9	100.1	93.2	102.5	93.0	101.7	90.1	103.9	100.9	100.3	89.3
May	110.3	103.3	96.9	95.4	94.4	100.2	100.3	96.3	101.7	92.8	101.3	90.1	104.2	100.0	101.4	90.0
June	112.8	103.2	95.3	96.6	94.3	99.3	100.0	96.9	101.0	92.3	101.0	89.4	104.0	98.1	100.8	91.2
July	113.3	103.6	95.2	97.2	95.0	98.3	100.3	96.3	101.3	91.8	101.3	87.7	104.7	97.2	101.2	92.1
August	115.2	103.7	93.6	99.2	94.3	98.0	99.6	97.0	100.5	91.2	100.8	87.8	105.6	95.7	100.9	92.8
September	113.9	104.3	94.7	100.3	94.9	98.0	99.2	97.2	100.4	90.5	101.1	88.1	105.5	97.4	102.3	92.4
October	113.2	103.2	96.8	101.6	95.1	98.8	99.1	95.6	100.5	89.8	102.0	86.7	106.0	97.3	101.8	92.2
November	114.7	103.1	96.4	103.1	95.2	97.8	99.0	96.1	99.8	89.4	101.6	86.8	105.6	96.7	101.7	93.0

Eurocurrency market size

based on foreign-currency liabilities and claims of banks in major European countries, the Bahamas, Bahrain, Cayman Islands, Netherlands Antilles, Panama, Canada, Japan, Hong Kong, Singapore, and United States international banking facilities
billions of dollars (rounded to nearest $5 billion), at end of period

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	
										Mar	Jun
Estimated size											
Gross	395	485	595	740	950	1 235	1 525	1 860	2 060	2 090	2 055
Liabilities to nonbanks	80	90	115	145	190	260	350	460	505	505	n.a.
Liabilities to central banks	60	65	80	100	115	145	150	130	90	90	n.a.
Liabilities to other banks[a]	255	330	400	495	645	830	1 025	1 270	1 465	1 495	n.a.
Net	220	255	320	390	495	590	730	890	960	965	970
Claims on nonbanks	105	130	165	210	265	330	425	530	595	600	n.a.
Claims on central banks and on banks outside market area[b]	95	105	130	150	185	200	230	275	270	265	n.a.
Conversions of Eurofunds into domestic currencies by banks in market area[c]	20	20	25	30	45	60	75	85	95	100	n.a.
Eurodollars as % of gross liabilities in all Eurocurrencies	76	78	80	76	74	72	75	78	79	80	80

a includes unallocated liabilities
b includes unallocated claims
c in European market area only
r revised
p preliminary

Eurocurrency deposit rates

prime banks' bid rates in London, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Eurodollar:											
overnight	19.25	12.87	9.25	8.75	8.88	9.50	8.75	9.38	9.25	9.25	9.00
7-day fixed	19.75	13.00	9.25	8.75	8.88	9.50	9.44	9.50	9.38	9.25	9.13
one month	19.12	13.31	9.13	8.94	9.13	9.50	9.81	9.88	9.38	9.44	9.69
three months	17.55	13.75	9.19	8.88	9.44	9.69	10.19	10.25	9.50	9.63	9.75
six months	16.37	14.81	9.50	9.06	9.63	9.94	10.63	10.63	9.69	9.69	9.94
twelve months	14.87	14.75	9.63	9.25	9.81	10.06	10.75	10.94	10.00	9.94	10.31
Euromark:											
one month	8.87	10.44	5.88	4.88	4.94	4.94	4.81	5.25	5.56	5.56	6.19
three months	8.87	10.50	5.88	5.00	5.06	5.19	5.06	5.50	5.75	5.81	6.19
six months	8.87	10.56	5.94	5.06	5.25	5.50	5.50	5.94	5.88	5.81	6.19
twelve months	8.93	10.25	6.00	5.31	5.69	5.94	5.94	6.44	6.19	6.13	6.44
Euro-Swiss franc:											
one month	6.00	8.87	2.81	4.31	4.75	4.56	4.69	4.19	3.69	3.50	4.06
three months	6.00	9.25	3.25	4.38	4.75	4.63	4.75	4.44	4.13	4.13	4.06
six months	5.75	9.25	3.44	4.38	4.75	4.75	4.88	4.81	4.31	4.19	4.19
twelve months	5.50	8.50	3.44	4.38	4.63	4.69	4.81	4.94	4.38	4.31	4.38
Eurosterling:											
one month	14.75	15.37	10.56	10.25	10.25	9.63	9.56	9.56	9.63	9.19	9.06
three months	14.75	15.69	10.44	10.19	10.25	9.63	9.81	9.75	9.56	9.25	9.25
six months	14.25	15.69	10.31	10.06	10.25	9.88	10.25	10.13	9.56	9.38	9.44
twelve months	14.00	15.37	10.31	10.00	10.31	10.06	10.50	10.50	9.81	9.69	9.69
Euro-French franc:											
one month	11.12	15.75	23.00	12.38	12.50	12.38	12.13	13.00	12.75	12.25	12.25
three months	11.75	17.00	24.00	12.88	13.38	14.94	13.50	15.00	14.31	12.88	13.19
six months	12.25	18.00	22.00	14.38	15.75	16.69	15.25	16.75	15.81	14.00	14.13
twelve months	12.87	18.25	19.75	16.00	17.25	18.00	16.75	16.88	16.19	14.88	14.69
Euroyen:											
one month	9.12	6.12	6.75	6.13	6.31	6.44	6.44	6.69	6.69	6.13	7.25
three months	9.25	6.12	6.75	6.19	6.31	6.50	6.50	6.63	6.69	6.31	6.75
six months	9.62	6.87	6.81	6.19	6.31	6.50	6.56	6.63	6.69	6.31	6.69
twelve months	9.37	6.87	6.81	6.38	6.38	6.50	6.56	6.75	6.69	6.44	6.69

Eurocurrency bank credits

publicly announced in period, in millions of dollars

	1980	1981	1982	1983			Jan-Nov	
				Sep[r]	Oct[r]	Nov[r]	1983	1982
Industrial countries	**39 100**	**86 022**	**42 775**	**2 820**	**7 006**	**2 976**	**35 162**	**41 095**
Australia	2 475	1 680	4 721	295	—	30	2 224	4 446
Canada	1 743	4 112	3 838	190	118	—	508	3 778
Denmark	1 720	1 661	789	—	—	—	1 586	770
France	1 745	3 912	5 653	75	222	148	1 708	5 640
Greece	1 333	1 039	770	—	—	249	1 085	770
Ireland	237	1 361	401	—	—	—	621	401
Italy	6 268	6 030	3 657	486	381	216	2 946	3 504
Norway	685	713	2 069	13	—	21	370	1 969
Portugal	745	1 590	1 388	—	500	—	800	1 238
Spain	5 457	3 242	1 849	98	222	166	2 665	1 662
Sweden	1 370	1 867	649	75	—	—	3 176	599
United Kingdom	1 470	747	1 635	—	315	—	1 268	1 635
United States	6 719	54 784	6 566	1 450	4 983	1 410	11 990	6 046
Other[a]	7 133	3 284	8 790	258	265	736	4 215	8 637
Developing countries	**35 054**	**45 284**	**41 515**	**2 056**	**587**	**2 249**	**32 714**	**38 877**
Non-OPEC countries	24 009	33 394	28 733	1 899	550	901	25 114	26 557
Argentina	2 506	2 534	1 565	—	—	—	1 750	465
Brazil	4 158	5 751	5 716	—	—	—	4 475	5 400
Chile	1 322	2 204	1 194	—	—	—	1 319	1 194
Colombia	608	1 030	741	139	100	—	459	671
Korea	1 917	2 824	2 923	995	96	372	3 225	2 800
Malaysia	—	1 725	1 909	60	—	—	920	1 837
Mexico	5 971	7 530	7 953	—	—	38	5 138	7 938
Peru	480	1 407	1 069	5	29	—	500	1 069
Philippines	1 056	1 257	635	—	—	100	815	580
Taiwan	314	928	255	—	—	—	536	255
Other	5 677	6 204	4 773	700	325	391	5 977	4 348
OPEC countries	11 045	11 870	12 782	157	37	1 348	7 600	12 320
Ecuador	1 209	934	815	—	—	—	431	815
Indonesia	1 435	725	1 250	—	—	11	1 482	989
Nigeria	1 330	1 802	2 042	22	—	17	1 853	1 990
United Arab Emirates	101	363	93	61	—	100	901	93
Venezuela	6 715	7 559	6 799	—	—	—	237	6 779
Other	255	497	1 783	74	37	1 220	2 696	1 654
Communist countries	**2 809**	**1 791**	**765**	—	**75**	—	**1 012**	**682**
China	181	370	43	—	—	—	10	10
East Germany	303	470	8	—	—	—	392	8
Hungary	550	550	340	—	75	—	483	290
Poland	800	—	—	—	—	—	—	—
Other[b]	975	401	374	—	—	—	127	374
International organizations[c]	**429**	**302**	**150**	—	—	—	**1 321**	**150**
TOTAL	**77 392**	**133 379**	**85 205**	**4 876**	**7 668**	**5 225**	**70 209**	**80 804**

[a] Includes multinational organizations
[b] Includes COMECON institutions
[c] Includes regional development organizations
[p] preliminary
[r] revised

International bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
U.S. companies:											
U.S. dollar	11.76	12.70	11.28	9.90	10.03	9.98	10.06	10.15	10.23	10.29	10.29
Swiss franc	7.27	7.30	5.76	5.71	5.88	5.86	5.83	5.84	5.78	5.81	5.73
European companies:											
U.S. dollar	12.42	14.29	12.45	11.17	11.18	11.33	11.48	11.47	11.51	11.40	11.43
German mark	8.79	9.36	8.17	7.16	n.a.	n.a.	7.69	7.66	7.56	7.39	7.61
Governments:											
U.S. dollar	11.83	13.59	12.51	11.09	11.22	11.24	11.51	11.58	11.75	11.73	11.68

New international bond issues*

new issues in period, in millions of dollars

	1980	1981	1982	1983			Jan-Nov	
				Sepr	Octr	Novr	1983	1982
By type:								
Eurobonds, total	**23 970**	**31 616**	**51 645**	**4 445**	**5 493**	**5 879**	**47 130**	**48 696**
by category of borrower								
U.S. companies	4 107	6 178	12 567	684	345	933	6 045	12 526
Foreign companies	9 032	12 882	13 372	924	1 366	2 311	16 106	12 655
State enterprises	5 839	7 496	14 650	1 545	713	890	10 544	12 970
Governments	3 045	2 629	7 683	806	2 804	1 089	8 422	7 372
International organizations	1 947	2 431	3 373	486	365	656	6 013	3 173
by currency of denomination								
U.S. dollar	16 427	26 830	43 959	3 685	4 385	4 470	37 646	41 417
German mark	3 607	1 277	2 588	180	116	294	3 576	2 444
Dutch guilder	1 043	529	645	33	51	133	670	645
Canadian dollar	279	634	1 201	61	41	209	983	1 181
European composite units	65	309	1 980	171	611	223	1 957	1 737
Other	2 549	2 037	1 272	315	289	550	2 298	1 272
Foreign bonds outside the United States, total	**14 521**	**13 817**	**20 451**	**1 543**	**2 359**	**2 186**	**21 644**	**19 474**
by category of borrower								
U.S. companies	307	592	1 971	145	255	5	1 312	1 873
Foreign companies	3 157	3 384	4 376	602	508	932	7 516	4 013
State enterprises	2 830	3 701	5 488	153	328	322	4 119	5 409
Governments	4 086	2 762	3 577	299	272	295	2 990	3 445
International organizations	4 141	3 378	5 039	344	996	632	5 707	4 734
by currency of denomination								
German mark	4 839	1 310	2 952	75	173	401	2 578	2 745
Swiss franc	7 617	8 285	11 432	1 260	1 108	1 222	13 352	10 922
Dutch guilder	259	481	956	33	169	83	1 053	919
Japanese yen	1 088	2 457	3 418	165	365	425	3 496	3 231
Other	718	1 284	1 693	10	524	55	1 165	1 657
Foreign bonds in the Unites States, total	**3 429**	**7 552**	**5 946**	**370**	**—**	**65**	**3 700**	**5 946**
by category of borrower								
Canadian entities	2 136	4 630	3 180	200	—	—	1 645	3 180
International organizations	550	1 375	1 700	120	—	—	1 020	1 700
Other	743	1 547	1 066	50	—	65	1 035	1 066
By country of borrower:								
Industrial countries	**32 732**	**40 978**	**63 192**	**5 088**	**6 378**	**6 528**	**57 343**	**59 911**
Australia	539	991	2 250	100	849	132	2 314	2 146
Austria	1 859	1 557	1 668	—	25	83	1 161	1 668
Canada	3 797	10 648	11 979	1 051	788	443	6 695	11 710
Denmark	1 125	695	1 269	537	—	248	1 647	1 269
Finland	392	672	815	33	79	50	857	815
France	2 820	3 156	8 456	815	316	248	6 134	7 218
Italy	904	1 108	2 214	170	578	293	1 513	2 214
Japan	5 309	6 928	8 397	818	939	1 842	13 514	7 768
Netherlands	1 585	630	894	53	75	66	881	865
New Zealand	293	1 107	1 375	—	—	—	455	1 075
Norway	892	530	832	27	175	—	638	832
Sweden	3 244	2 050	2 479	46	1 080	116	3 666	2 267
United Kingdom	1 733	1 408	1 201	208	175	175	1 336	1 181
United States	5 587	6 770	14 538	753	600	938	7 281	14 399
Developing countries	**2 485**	**4 769**	**4 873**	**320**	**113**	**314**	**2 317**	**4 733**
Non-OPEC countries	1 942	4 338	3 833	70	113	314	1 972	3 743
Brazil	349	60	91	—	—	—	—	91
Korea	68	323	172	70	—	70	535	152
Mexico	544	3 012	1 919	—	—	—	—	1 919
OPEC countries	543	431	1 040	250	—	—	345	990
Venezuela	398	291	385	—	—	—	—	385
Communist countries	**65**	**75**	**65**	**—**	**—**	**—**	**75**	**65**
International organizations	**6 638**	**7 163**	**9 912**	**950**	**1 361**	**1 288**	**12 740**	**9 407**
TOTAL	**41 920**	**52 985**	**78 042**	**6 358**	**7 852**	**8 130**	**72 474**	**74 116**

*Beginning November 1982, deferred payment issues are recorded in month(s) payments are actually made.

Central bank discount rates

	1979	1980	1981	1982	1983			Current	
	end Dec	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	Dec 12 1983	effective since
United States	12.00	13.00	12.00	8.50	8.50	8.50	8.50	8.50	Dec 15, 82
Canada	14.00	17.36	14.66	10.05	9.42	9.42	9.49	9.92	Dec 8, 83
Japan	6.25	7.25	5.50	5.50	5.50	5.50	5.50	5.00	Oct 22, 83
United Kingdom	17.00	14.00	14.37	10.00	10.56	9.50	9.50	9.00	Oct 4, 83
Belgium	10.50	12.00	15.00	11.50	11.00	9.00	9.00	10.00	Nov 24, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	0.00	7.50	7.50	5.00	4.00	4.00	4.00	4.00	Mar 18, 83
Italy	15.00	16.50	19.00	18.00	18.00	17.00	17.00	17.00	Apr 9, 83
Netherlands	9.50	8.00	9.00	5.00	3.50	4.50	5.00	5.00	Sep 9, 83
Austria	3.75	6.75	6.75	4.75	3.75	3.75	3.75	3.75	Mar 18, 83
Denmark	11.00	11.00	11.00	10.00	8.50	7.50	7.50	7.00	Oct 27, 83
Finland	8.50	9.25	9.25	8.50	8.50	8.50	9.50	9.50	July 1, 83
Ireland	16.40	12.75	17.15	14.35	14.35	13.80	13.00	11.50	Nov 11, 83
Norway	9.00	9.00	9.00	9.00	9.00	9.00	8.00	8.00	Jun 6, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.00	12.00	11.00	10.00	9.00	8.50	8.50	8.50	Apr 8, 83
Switzerland	2.00	3.00	6.00	4.50	4.00	4.00	4.00	4.00	Mar 18, 83
Argentina	89.90	87.01	98.50	128.54	128.54	128.54	183.75	183.75	Sep 5, 83
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	7.00	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	11.00	13.00	14.00	13.00	13.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	18.90	12.37	8.95	8.80	8.63	8.98	9.37	9.56	9.45	9.48	9.36
Canada	15.61	14.53	10.63	9.41	9.28	9.45	9.31	9.35	9.25	9.35	9.43
Japan	9.49	6.70	6.92	6.30	6.08	6.20	6.39	6.46	6.15	6.42	5.99
Australia	9.51	12.84	11.04	11.15	11.16	10.87	9.84	10.13	9.80	9.03	9.31
United Kingdom	13.00	9.13	6.70	7.63	6.00	6.63	6.60	6.31	7.30	7.81	6.92
Belgium	9.68	12.78	9.43	9.83	7.45	7.68	7.49	7.61	6.38	6.89	8.58
France	10.87	15.46	12.88	12.55	12.46	12.61	12.40	12.54	12.57	12.35	12.37
Germany	9.13	10.65	6.07	4.93	5.00	5.05	5.04	5.07	5.43	5.53	5.59
Italy	17.50	20.63	19.00	18.00	18.00	17.80	17.75	17.88	17.69	17.75	17.79
Netherlands	8.37	10.67	5.31	5.18	5.22	5.06	5.29	5.77	5.68	5.82	5.70
Austria	11.50	7.50	6.00	4.88	4.38	4.50	5.00	5.00	5.50	5.63	5.63
Finland	12.50	11.30	11.50	13.00	15.00	15.00	15.00	15.00	16.67	16.95	16.70
Ireland	13.31	16.88	14.54	15.25	14.38	13.62	13.75	12.50	12.63	11.00	12.25
Norway	11.00	18.60	11.00	12.25	12.75	12.00	12.00	12.70	12.30	13.50	13.00
Spain	16.74	16.73	20.30	20.38	21.01	20.10	21.05	23.33	19.85	20.27	18.56
Sweden	11.41	13.82	8.63	11.00	11.00	11.05	11.00	10.15	11.30	12.00	11.97
Switzerland	5.75	3.38	1.25	3.88	3.88	3.00	3.00	2.00	2.00	1.75	1.63
Argentina	70.84	84.93	155.32	196.18	162.81	170.43	210.04	106.40	173.90	258.90	271.79
Brazil	62.71	103.74	150.42	266.06	220.06	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	14.05	10.75	9.13	10.40	11.38	12.38	7.00	6.81	13.25	18.00	10.00
Korea	14.82	14.40	13.84	13.60	13.40	13.40	12.70	12.70	12.80	12.80	12.90
Philippines	15.70	14.70	16.12	10.93	13.55	13.05	13.59	15.56	16.54	24.23	n.a.
Singapore	10.23	3.96	11.45	9.96	6.63	5.96	8.08	6.33	6.51	7.02	7.23
South Africa	5.60	12.34	12.90	9.71	9.73	10.91	12.29	13.62	13.43	13.66	14.24
Eurodollars	19.22	12.29	9.15	8.90	8.71	9.07	9.42	9.52	9.42	9.44	9.26

Treasury bill rates

bond-equivalent yields, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	14.87	11.90	8.15	8.34	8.75	9.02	9.50	9.52	9.05	8.92	9.05
Canada	17.01	14.41	9.80	9.12	9.25	9.17	9.24	9.32	9.24	9.24	9.38
Japan	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	12.17	13.27	9.39	11.14	11.83	11.93	10.59	10.96	10.34	9.38	9.32
United Kingdom	13.45	15.31	9.90	9.75	9.68	9.29	9.40	9.57	9.21	8.89	9.08
Belgium	12.75	16.00	12.25	10.35	10.00	9.50	9.25	9.25	9.25	9.50	10.85
Ireland	12.84	17.35	14.70	13.81	14.01	12.95	13.09	13.01	12.12	11.96	11.66
Italy	16.87	21.36	19.11	18.27	17.65	17.35	17.35	17.24	17.18	17.08	n.a.
Netherlands	8.00	9.75	5.63	6.50	5.63	4.63	5.38	6.00	5.88	5.63	5.63
Spain	17.20	15.83	16.96	18.11	21.67	21.52	22.53	22.93	22.24	20.74	19.08
Sweden	12.87	9.20	8.18	7.13	7.13	7.12	7.12	7.13	7.13	7.13	7.13
Korea	16.35	16.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Mexico	27.73	33.22	57.44	62.85	63.04	62.36	61.10	57.89	56.17	55.60	54.15
New Zealand	11.25	11.25	11.25	12.00	12.00	12.00	7.80	7.80	7.80	7.80	7.80
Philippines	12.74	13.40	14.53	14.54	14.49	14.00	14.03	14.48	14.71	15.04	n.a.
Singapore	6.77	3.03	2.74	2.59	2.51	2.61	2.59	2.58	2.65	2.63	2.62
South Africa	6.31	14.55	14.62	11.53	11.81	13.96	14.46	16.19	15.49	15.66	17.47

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	17.62	12.78	8.81	8.56	8.63	9.34	9.57	9.52	9.36	9.26	9.31
Canada	17.50	15.25	9.95	9.45	9.50	9.45	9.40	9.50	9.40	9.40	9.60
Japan	9.80	6.30	6.80	6.20	6.36	6.47	6.59	6.61	6.62	6.30	6.42
Australia	13.00	16.00	10.65	12.90	13.00	13.85	12.10	12.20	11.15	11.00	10.60
United Kingdom	14.75	15.69	10.50	10.19	10.25	9.75	10.06	9.75	9.56	9.31	9.25
Belgium	13.10	16.00	12.35	10.45	10.00	9.50	9.25	9.25	9.25	9.60	11.00
France	11.56	15.25	12.75	12.31	12.44	12.50	12.13	12.25	12.50	12.19	12.31
Germany	10.20	10.50	6.20	5.18	5.25	5.55	5.50	5.85	5.80	6.15	6.25
Ireland	13.63	18.50	15.75	15.25	14.75	13.63	13.88	13.38	12.69	12.53	12.38
Italy	17.37	21.00	19.00	17.75	17.75	17.50	17.50	17.60	17.50	17.63	17.88
Netherlands	9.37	11.00	5.25	6.00	6.13	5.38	5.69	5.31	6.25	6.13	6.31
Spain	17.40	15.52	16.55	18.91	21.57	20.76	22.48	24.04	22.06	22.19	20.29
Switzerland	7.50	10.12	3.88	4.50	4.75	4.81	4.85	4.44	4.25	4.25	4.25
Hong Kong	17.69	14.18	10.13	10.06	11.50	12.88	9.88	8.94	12.75	16.88	11.50
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	14.25	16.05	16.75	14.00	16.00	16.75	12.75	10.25	10.00	10.75	12.00
Philippines	15.01	17.61	15.91	14.34	15.57	15.06	15.96	15.62	16.49	18.26	n.a.
Singapore	14.12	7.81	8.69	7.38	7.56	7.81	7.88	7.38	7.38	7.50	7.63
South Africa	7.12	15.47	15.26	12.16	12.21	14.88	14.94	16.61	16.45	16.94	18.19

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	16.25	12.62	8.25	8.40	8.88	9.18	9.65	9.65	9.20	9.30	9.30
Canada	17.00	15.20	9.85	9.35	9.40	9.35	9.35	9.45	9.35	9.35	9.50
Japan	9.00	6.50	7.00	6.40	6.60	6.67	6.80	6.83	6.86	6.45	6.60
Australia	12.71	15.65	10.20	12.82	12.68	14.84	12.05	11.88	10.56	10.96	10.35
United Kingdom	14.87	15.69	10.31	10.19	10.28	n.a.	10.06	9.78	9.50	9.25	9.22
Belgium	12.63	15.50	12.25	10.38	10.13	9.25	9.13	9.25	9.50	9.38	11.25
France	11.25	9.16	8.24	8.24	8.24	8.24	8.24	7.30	7.80	7.70	7.70
Germany	8.00	9.50	6.00	4.75	4.85	4.90	4.90	4.90	5.63	5.60	5.80
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	9.50	11.00	5.38	6.13	6.25	5.50	5.63	5.25	6.13	6.06	6.19
Austria	11.25	9.63	6.25	5.25	4.69	5.00	5.31	5.56	6.06	6.31	6.38
Denmark	10.00	10.00	9.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.00
Finland	5.00	5.00	4.25	4.25	4.25	4.25	5.25	5.25	5.25	5.25	5.25
Ireland	13.63	18.38	15.25	14.75	14.50	13.25	13.50	13.13	12.25	12.50	12.25
Norway	11.00	12.75	13.50	12.00	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Spain	4.50	11.78	12.53	12.30	12.36	12.47	12.28	12.28	12.24	12.08	n.a.
Sweden	9.75	10.25	9.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Switzerland	7.50	8.75	3.00	3.50	3.75	4.25	4.00	3.75	3.75	3.50	3.50
Argentina	72.00	86.76	103.42	121.66	121.66	108.28	127.75	139.92	176.41	176.41	176.41
Brazil	96.49	110.05	118.26	128.81	137.28	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	13.00	12.50	7.50	8.50	11.00	10.50	8.50	8.50	12.00	10.00	9.00
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	26.15	31.81	52.54	60.46	60.35	60.03	59.25	57.33	56.38	55.28	54.88
New Zealand	13.50	15.50	16.50	12.75	14.75	16.50	10.00	9.00	9.00	9.50	10.75
Philippines	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	13.19	7.50	8.25	6.88	7.07	7.01	7.44	6.86	6.81	7.07	7.19
South Africa	7.87	14.75	15.25	12.25	12.35	14.75	14.95	16.62	17.00	17.00	18.43
Venezuela	16.00	14.75	15.50	16.00	15.00	14.00	13.50	13.00	12.50	12.00	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
United States	21.50	15.75	11.50	10.50	10.50	10.50	10.50	11.00	11.00	11.00	11.00
Canada	18.25	16.50	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Japan	8.16	6.95	6.28	6.26	6.26	6.25	6.25	6.24	6.25	6.25	6.10
Australia	13.50	15.75	15.00	15.75	15.00	16.00	14.50	14.50	14.00	13.25	13.25
United Kingdom	15.00	14.50	10.00	10.00	10.00	9.50	9.50	9.50	9.50	9.00	9.00
Belgium	15.75	18.00	15.50	14.00	14.00	13.25	12.50	12.50	12.50	12.50	13.25
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Italy	20.50	22.50	20.75	19.50	18.75	18.75	18.75	18.75	18.75	18.75	18.75
Netherlands	10.75	12.00	6.25	5.75	6.25	6.25	6.25	6.75	7.00	6.75	6.50
Austria	12.50	13.50	11.75	9.75	9.75	9.25	9.25	9.25	9.25	9.25	9.25
Denmark	13.75	15.00	14.00	11.00	11.00	10.50	10.50	10.50	10.50	10.50	10.00
Finland	9.83	9.84	8.95	8.97	9.00	9.07	10.07	10.10	10.16	10.14	n.a.
Ireland	14.50	17.25	16.50	16.25	16.25	15.00	15.00	15.00	13.75	13.75	13.75
Norway	12.50	13.75	14.50	14.50	14.50	14.50	14.00	14.00	14.00	14.00	13.50
Spain	18.50	17.04	19.00	19.27	22.40	22.73	23.47	25.19	24.09	23.70	22.87
Sweden	11.75	13.50	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Switzerland	5.75	8.00	6.00	5.50	5.50	5.50	6.00	6.00	6.00	6.00	6.00
Argentina	77.00	92.60	109.50	175.00	170.00	184.00	240.00	152.08	188.58	188.58	188.58
Brazil	96.45	138.09	166.49	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	17.00	16.00	10.50	11.50	11.50	13.50	11.50	11.50	16.00	15.00	13.50
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	24.25	31.81	46.12	57.21	58.14	58.63	58.73	58.23	57.78	57.14	56.82
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	11.00	11.00	11.00	11.00
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	19.00	19.00
Singapore	13.60	11.83	9.33	9.03	9.03	8.88	9.00	9.00	8.95	8.93	8.93
South Africa	9.50	17.00	18.00	14.00	14.00	16.00	16.00	18.00	18.00	18.00	19.00
Venezuela	15.00	15.50	17.00	17.50	17.00	17.00	16.50	16.25	16.00	16.00	16.00

Domestic government bond yields

long-term issues, at or near end of month

	1980	*1981*	*1982*	*1983*							
	Dec	*Dec*	*Dec*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*
United States	11.46	14.33	10.61	10.52	10.91	11.20	11.95	11.77	11.65	11.85	11.89
Canada	12.69	15.27	11.69	11.18	11.30	11.56	12.03	12.34	11.76	11.73	11.80
Japan	9.04	8.32	7.76	7.77	7.80	7.78	7.87	7.80	7.58	7.51	7.39
Australia	13.00	15.00	13.00	13.65	14.80	15.10	15.00	14.60	14.40	13.70	13.40
United Kingdom	13.05	15.02	10.62	10.28	10.10	10.12	10.71	10.65	10.15	10.13	9.93
Belgium	13.04	13.99	12.66	11.59	11.63	11.53	11.42	11.46	11.39	11.32	11.75
France	14.31	16.44	15.40	14.55	14.55	14.52	14.04	13.96	14.03	14.15	14.12
Germany	9.19	9.71	7.90	7.74	8.09	8.11	8.27	8.55	8.43	8.30	8.34
Italy	16.23	21.39	19.62	18.11	18.13	18.22	18.42	18.11	17.82	17.64	n.a.
Netherlands	10.48	11.28	8.16	8.83	9.30	9.00	9.08	9.03	8.80	8.53	8.57
Austria	9.62	10.37	8.81	8.09	8.07	8.14	8.18	8.31	8.32	8.16	n.a.
Denmark	19.98	20.91	20.14	14.27	14.17	15.38	15.56	14.92	14.19	13.95	14.22
Finland	10.42	10.98	10.64	10.58	10.69	10.55	10.58	11.20	10.97	11.19	11.16
Ireland	15.63	18.28	14.54	13.62	13.51	13.61	13.81	13.60	13.72	13.82	13.72
Norway	10.44	12.37	13.32	12.75	12.75	12.50	12.50	12.50	12.50	12.50	12.50
Spain	16.15	16.20	15.92	17.05	17.31	17.63	17.60	18.31	18.76	19.47	n.a.
Sweden	12.61	12.80	13.01	12.22	12.14	12.17	11.85	11.24	12.20	12.24	12.44
Switzerland	4.63	5.40	4.22	4.42	4.51	4.59	4.76	4.73	4.71	4.61	4.62
New Zealand	12.99	12.55	12.84	13.95	14.00	13.59	14.02	10.41	10.13	9.72	n.a.
Philippines	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	11.81	13.62	11.31	12.26	12.85	14.15	13.27	13.16	12.93	13.33	13.60
Venezuela	7.39	12.50	15.00	15.75	15.75	15.75	15.00	15.00	14.00	14.00	14.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	*1981*	*1982*	*1983*							
	Dec	*Dec*	*Dec*	*Apr*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*
United States	13.00	15.50	11.75	11.00	11.75	11.75	12.75	12.50	12.25	12.63	12.38
Canada	13.62	16.48	13.05	12.29	12.59	12.47	13.09	13.24	12.63	12.64	12.70
Japan	8.60	7.70	7.55	7.37	7.16	7.30	7.34	7.32	7.30	7.29	7.27
Australia	14.25	16.50	15.00	16.00	16.00	16.00	15.75	15.50	15.00	15.00	15.00
United Kingdom	14.21	16.55	12.34	12.14	12.12	11.89	12.34	12.27	11.89	11.84	11.51
France	15.23	17.33	15.91	14.87	14.85	14.86	14.76	14.48	14.36	14.62	14.30
Germany	9.50	10.50	8.20	7.30	7.40	7.90	8.00	8.10	8.30	8.30	8.30
Netherlands	10.71	11.03	7.80	8.65	8.91	8.79	8.75	8.79	8.68	8.39	8.53
Norway	11.24	13.36	14.13	13.50	13.50	13.25	13.25	12.25	13.25	13.25	13.25
Spain	14.82	14.76	17.10	17.22	16.77	16.86	18.00	19.59	20.05	20.37	n.a.
Sweden	11.95	12.94	13.37	12.85	12.89	12.79	12.85	12.77	12.99	12.40	12.51
Switzerland	5.63	6.60	5.92	5.98	5.94	6.06	6.10	6.21	6.43	6.27	6.29
Korea	28.20	27.00	15.90	14.00	13.90	13.90	13.90	13.90	14.20	14.10	14.10
Venezuela	16.15	17.00	18.00	18.25	18.00	18.00	18.00	18.00	18.00	18.00	18.00

Key to data in tables

I. International markets

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

Categories of borrower

U.S. companies include both parent companies and their financing affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Country of borrower

The country of the borrower is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

International bond yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield.

The yield indices are simple arithmetic averages of end-of-month secondary market yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers. Occasionally the individual issues in each category are changed.

The number of issues represented in each of the indices is as follows:

Long-Term, U.S. companies, U.S. dollar — —ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc — four foreign bond issues.

Long-term, European companies, U.S. dollar — ten Euro-bond issues.

Long-term, European companies, German mark — ten Euro-bond issues.

Long-term, governments, U.S. dollar — six Euro-bond issues (governments of Italy, Denmark, and France).

Euro-currency deposit rates

All data are prime banks' bid rates for deposits in London. Offer rates commonly used as a basis for Euro-dollar lending are generally .125% above bid rates.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — overnight financing of Treasury bills (LTN) until November 1978. New series as of December 1978, rates paid for federal funds.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Euro-dollars — prime banks' bid rate for overnight money.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit.

Sweden — new issues of 3-month Treasury bills.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month negotiable certificates of deposit of investment banks net of taxes.

Canada — 3-month time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Key to data in tables — continued

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 3-month time deposits until April 1979. New series as of May 1979, 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month time deposits issued to ordinary savers until June 1975. New series, as of July 1975, 3-month special term deposits.

Philippines — 3-month time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — deposits at 6-months' notice.

Switzerland — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for large amounts until December 1978. New series as of January 1979, similar rate for domestic depositors only.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — weighted average investment bank lending rate for multinational companies including tax on financial obligations (IOF).

Canada — prime rate.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .333% prior to July 1978, .25% thereafter, per quarter on the total line of credit.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — maximum legal rate for discounting commercial bills plus a commission of 1% per annum until December 1979. New series as of January 1980, preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — actual interest rate on 3-month loans to prime industrial borrowers.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for prime borrowers until December 1978. New series as of January 1979, similar rate for domestic prime borrowers only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

South Africa — 25-year government bonds until August 1983. New series, as of September 1983, 20-year Republic of South Africa bonds.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Domestic corporate bond yields

Australia — long-term secured debentures, indicated by Australian United Corporation.

Canada — McLeod, Young, Weir Co. Ltd., average yield on ten industrial bonds.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — FAZ 6% industrial bond average until September 1978. New series as of October 1978, Bundesbank average yield on industrial bonds

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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    Morgan Guaranty Pacific Limited, Singapore
    Morgan Guaranty (Switzerland) Ltd, Zurich
    Morgan International Finance (Italy) S.p.A., Milan
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World Financial Markets

Morgan Guaranty Trust Company of New York

January 1984

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Table 1

New international credits and bonds

billions of dollars

	1982	1983
By market		
Eurocurrency bank credits	84.91	73.90
International bond issues	78.04	75.67
Eurobond issues	51.64	48.48
Foreign bond issues	26.40	27.19
Switzerland	11.43	14.10
United States	5.95	4.40
Japan	3.42	3.79
Germany	2.95	2.61
Others	2.65	2.29
By country of borrower		
Industrial countries	105.46	98.13
Europe	62.51	47.95
United States	21.05	20.25
Canada	15.82	8.44
Japan	8.40	14.33
Others	17.24	7.16
Developing countries	46.59	35.47
Latin America	29.20	15.38
Asia	10.55	11.04
Middle East and Africa	6.84	9.05
Centrally planned countries	.83	1.29
International organizations	10.06	14.68
Total	162.95	149.57

International credit markets in 1983

The main purpose of this issue is to provide statistical data on international bond issues, Eurocurrency bank credits, Eurocurrency market size, Eurocurrency deposit rates, and nominal and real effective exchange rates for the period from 1976 to 1983. The tables containing these data are preceded by a brief commentary on several developments in the international credit markets during the past year.

International credit flows slowed last year. Publicized gross new medium-term Eurocurrency bank credits and new international bond issues declined to less than $150 billion in 1983 from $163 billion in 1982 (see Table 1).

Most of this overall decline occurred in Eurocurrency bank credits, which fell from nearly $85 billion in 1982 to approximately $74 billion last year. New-issue volume in international bond markets slid from $78 billion to less than $76 billion in 1983. This was the first time since 1976 that gross new borrowing in international bonds exceeded medium-term Eurocurrency bank credits.

The data on new international bond issues include all publicly announced Eurobond and foreign bond issues with original maturity of three years or more, whether publicly or privately placed, except those placed directly with a central bank or government. The data on new medium-term Eurocurrency bank credits include all publicly announced Eurocurrency loans with an original maturity of more than one year. Not included in the bank credit figures are new medium-term domestic currency bank loans to foreigners, a type of bank credit that corresponds to the foreign bond component of the international bond market. There were $7.5 billion of publicized domestic currency bank loans to foreigners in 1983 (see Table 2). These are loans denominated in the currency of the country in which the lending banks are resident, as opposed to Eurocurrency credits for which, by definition, the currencies are foreign to the country in which the lending banks reside.

Both the international bond and Eurocurrency credit data are reported on a gross basis, that is, they do not reflect repayments of existing bonds and credits. Therefore, these data are not a measure of net flows of funds. Moreover, in the case of the credits, not all of the new loan facilities are necessarily utilized at the time they are announced; some credits are in the form of standby

Table 2

New foreign bank credits, 1983

domestic-currency bank credits to
foreign borrowers
billions of dollars

Industrial countries	3.22
Denmark	.59
France	.36
Italy	.35
Spain	.34
Norway	.17
Belgium	.17
Greece	.16
Iceland	.15
Sweden	.14
Australia	.13
Finland	.12
Canada	.12
Developing countries	2.75
Korea	.57
Indonesia	.57
Nigeria	.53
Malaysia	.37
Thailand	.13
India	.10
Centrally planned countries	.06
International organizations	1.47
Total	7.49

facilities or committed credit lines that may be only partially utilized or perhaps never drawn upon.

Actual net flows of funds through the Eurocurrency bank market can be gauged by changes in the size of that market, which is measured by the amount of outstanding foreign currency assets or liabilities of banks in major market centers. As shown in Table 8 on page 9, the overall size of the Eurocurrency market, including all interbank liabilities, leveled out in the first half of 1983 at around $2.06 trillion. This marked the first significant break in the steady growth of this market since its inception in the early 1960s. It expanded 20% to 30% annually during the 1970s and the early 1980s, slowing to about a 10% rate in 1982. Preliminary data, however, suggest a resumption of modest growth in the third quarter. The absence of an increase in the overall market size in the first half of 1983 reflected a contraction of interbank liabilities. The so-called net market size, which excludes interbank liabilities within the market area, advanced by nearly $15 billion to $945 billion in the first half of 1983, or by less than 1½%.

Major borrowers

LDC debt problems led to considerable restraint by lenders and investors and were important factors in slowing the volume of new international bonds and credits last year. As shown in Table 1, developing countries raised $35.5 billion in the international markets in 1983. This is a decline of more than $11 billion, or nearly 24%, from the level of their borrowings in 1982, and the lowest total for this group of countries since 1977. The entire $11 billion decline was attributed to Latin American countries; LDCs in the Asian and in the Middle East and African regions increased their borrowings.

LDCs raised only $2.5 billion in international bond markets in 1983, most of it by Asian countries. The total is less than half of the new-issue amount in 1982, when several Latin American countries still had access to the bond markets. Moreover, most of the new issues by developing countries during 1983 were in the form of floating rate notes, the bulk of which are believed to have been acquired by banks. Nonbank investors' longstanding reluctance to purchase LDC paper was accentuated by the general concern about the financial situation of this group of countries.

Most external borrowing by developing countries was in the form of new medium-term Eurocurrency bank credits, which amounted to $33 billion last year compared with $41.5 billion in 1982. Almost half of last year's total consisted of special new-money loans arranged in conjunction with debt reschedulings and IMF-supported adjustment programs. If these special new-money loans are excluded from the totals, the amount of so-called spontaneous, or regular, market loans to LDC borrowers shrank to $17.6 billion last year, nearly $24 billion below the comparable figure for 1982.

The total amount of new funds raised by Latin American borrowers in international markets was nearly halved from $29.2 billion in 1982 to $15.4 billion in 1983. Only about $1.5 billion or less than 10% of the total were regular market transactions as opposed to the new-money portions of special financial packages that also included debt reschedulings. Among the major Latin borrowers, only Argentina and Chile arranged a larger amount of new credits in 1983 than in the previous year (see Table 3). The largest reductions in new borrowings were for Venezuela, Mexico, and Brazil.

Table 3

New international borrowing by country of borrower

Eurocurrency bank credits and
international bond issues
billions of dollars

	1982	1983
Industrial countries	105.56	98.13
United States	21.05	20.25
Japan	8.40	14.33
Canada	15.82	8.44
France	14.16	8.16
Sweden	3.13	6.94
Australia	6.97	5.34
Italy	5.87	4.50
Spain	2.60	4.46
Denmark	2.06	3.31
United Kingdom	2.84	2.69
Belgium	1.38	2.03
Ireland	1.03	1.72
Norway	2.60	1.63
South Africa	1.85	1.30
Austria	2.07	1.26
Switzerland	.55	1.20
Finland	1.45	1.14
Greece	.77	1.13
Netherlands	.99	1.02
Developing countries	46.59	35.47
Mexico	9.87	5.14
Brazil	5.81	4.48
Korea	3.10	3.80
Algeria	.03	1.96
Nigeria	2.04	1.85
Indonesia	1.73	1.83
Malaysia	2.72	1.78
Argentina	1.57	1.75
Chile	1.19	1.32
Turkey	.28	1.08
United Arab Emirates	.11	.90
India	.51	.87
Philippines	.69	.82
Thailand	.33	.60
Taiwan	.40	.58
Peru	1.07	.50
Non-OPEC countries	32.77	27.49
OPEC countries	13.82	7.98
Centrally planned countries	.83	1.29
Hungary	.34	.68
International organizations	10.06	14.68
Total	162.95	149.57

Developing countries in Asia increased their total new borrowings by nearly 5% to more than $11 billion last year. Among the principal borrowing countries in this region, only Malaysia reduced its takings. Korea raised its gross new borrowing to $3.8 billion from $3.1 billion in 1982. However, the pace of lending to the region slowed noticeably in the latter part of the year as lenders became more cautious in the wake of the Philippines' debt-servicing problems and the uncertainties regarding the financing arrangements for several major Latin American countries. Total borrowing by developing countries in the Middle East and African area rose considerably last year, reflecting increased borrowing by the United Arab Emirates and by Algeria and Turkey, two countries that had been virtually absent from international credit markets for several years.

Industrial-country borrowers continued to dominate the international credit markets in 1983, accounting for close to two-thirds of the total amount raised. Nonetheless, their borrowings declined by more than $7 billion, or about 7%, to $98 billion last year. Part of this decline can be attributed to the improved current account performances of many industrial countries and the related reduction in balance-of-payments financing. The combined current account deficits of industrial countries other than the United States fell from $51 billion in 1982 to only about $22 billion in 1983. The relatively slow pace of economic activity outside North America also held down credit demand from many industrial countries. Governments of a number of countries, however, continued to tap the international markets to finance part of their large budget deficits.

U.S. companies were again the largest group of borrowers among industrial countries in the international markets last year, raising $12.9 billion through medium-term Eurocurrency bank credits and $7.4 billion via new issues of bonds and notes. The $20.3 billion total was only slightly below the previous year's takings. The U.S. government did not borrow in the international markets in either 1982 or 1983. Japan ranked second in total borrowings in 1983, as its total jumped from $8.4 billion in 1982 to $14.3 billion last year. Almost all this borrowing took place in the international bond markets, as Japanese companies took advantage of the relatively low coupons on issues in the Swiss franc and German mark sectors as well as the appetite of international investors for equity-linked obligations. Japanese banks were particularly heavy borrowers, raising more than $4.7 billion to fund part of their international term lending. Sweden more than doubled its borrowings in the international markets last year to almost $7 billion, making the country the fifth largest borrower in 1983.

Although both Canada and France remained among the largest borrowers in 1983, the total amounts they raised fell by $7.4 billion and $6 billion, respectively, from record levels in 1982. The narrowing of interest rate differentials between the domestic and external markets as well as the absence of large-scale financings for corporate takeovers contributed to the reduced level of Canadian borrowing. Dramatic improvement in the French current account balance during 1983 as well as reduced pressure on the franc following the March EMS realignment lessened the need for foreign currency borrowing by France last year. Similar factors contributed to a decline in the use of international credit markets by Italian entities in 1983.

Eastern European countries raised only about $1.2 billion in the inter-

Table 4

International bond issues

by currency of denomination
billions of dollars and percent of total

	1982		1983	
	$	%	$	%
U.S. dollar	49.9	63.9	42.8	56.6
Swiss franc	11.4	14.6	14.1	18.6
German mark	5.5	7.1	6.4	8.4
Japanese yen	3.8	4.9	4.0	5.3
British pound	1.9	2.5	2.4	3.2
Dutch guilder	1.7	2.2	1.8	2.4
Canadian dollar	1.2	1.5	1.0	1.4
European composite units	2.0	2.5	2.1	2.8
Others	.7	0.8	1.0	1.3
Total	78.0	100.0	75.7	100.0

national markets last year. Most of this total went to Hungary and East Germany, with the latter's borrowing guaranteed by the West German government. Banks remain very hesitant to enter into new medium-term commitments to most of the countries in this area. Lending is generally confined to small loans by individual banks, mostly of a short-term, trade-related nature.

Overlapping markets

Last year saw further evidence of the close connections between the Eurocurrency bank credit and international bond markets, both in terms of instruments and participants. For example, floating rates, which have long dominated Eurocurrency bank lending, again figured prominently in new-issue activity in international bond markets last year. Floating rate instruments — notes and bonds as well as medium-term CDs — accounted for $17.8 billion, or 23%, of total new-issue volume in 1983. Also a number of borrowers utilized interest rate swaps to convert fixed rate obligations into floating rate liabilities and vice versa.

Commercial banks were active in international bond markets as both borrowers and investors. Banks based in major market centers raised nearly $13 billion through the issuance of international bonds, notes, and medium-term CDs last year. Banks were adding to their capital bases as well as securing medium-term funding for their international lending activity. The latter was a particularly important consideration for Japanese and other nondollar-based banks. Commercial banks were also among the principal investors in floating-rate note issues, reportedly acquiring up to three-quarters of many individual offerings. Some banks regard the acquisition of floating rate notes as an alternative to participating in syndicated credits led by other banks. Although the spreads may be slightly lower on floating rate notes than on medium-term loans, at least for obligations of certain highly rated borrowers, some banks evidently are attracted by the marketability of the notes. Another attraction may be the preferential treatment that has been accorded to holders of notes in several debt reschedulings. In general, publicly held notes and bonds issued by the governments and agencies of countries experiencing debt problems in recent years have been excluded from reschedulings and serviced on schedule. Borrowers likewise view the floating rate note as an alternative to a syndicated bank credit, with several issuers able to raise very large amounts on favorable terms.

Currencies

The dollar remained the predominant vehicle currency in the international bond market last year. However, the share of dollar-denominated issues in total new-issue volume declined from nearly 64% in 1982 to less than 57% in 1983, as the amount of such issues fell from about $50 billion to less than $43 billion last year (see Table 4). In the Eurobond sector alone, the dollar's share was considerably higher at 79% in 1983, down from 85% the year before. Although the relatively high interest rates on dollar-denominated securities and the strength of the dollar undoubtedly attracted investors, these same factors may have discouraged some borrowers from incurring dollar obligations.

The amounts and percentage shares of issues denominated in other major vehicle currencies rose last year, with the exception of those in Canadian dollars. The volume of Swiss franc bonds publicly offered and privately placed in the Swiss market by foreign borrowers increased from the equivalent of $11.4 billion in 1982 to $14.1 billion last year, or from 14.6% to 18.4% of the total. Japanese borrowers accounted for nearly half of the Swiss franc volume last year, including a large portion of the more than $3 billion of Swiss franc convertibles. German mark-denominated issue volume ranked third, having risen by nearly $1 billion to $6.4 billion in 1983, even though investors hesitated from time to time to acquire DM securities given the large yield differential versus U.S. dollar bonds and periodic weakness of the mark in relation to the dollar.

The volume of yen-denominated offerings increased by only $200 million to $4 billion in 1983 or 5.3% of total new international issue volume. All but about $200 million consisted of so-called Samurai bonds — yen issues in the Japanese market by foreign borrowers. The volume of Euroyen issues, however, could expand considerably this year if the Japanese Ministry of Finance allows Japanese corporations to issue Euroyen obligations as planned and if interest payments on these bonds are exempted from withholding taxes.

The $2.4 billion of sterling-denominated international issues in 1983 represented a record for this sector of the market. Borrowers were attracted in part by the possibility of raising funds for comparatively long periods through a variety of instruments, while investors were attracted in part by the relatively liquid secondary market for sterling securities. Last year also saw nearly $2.1 billion of ECU-denominated offerings, up slightly from 1982. The ECU has clearly eclipsed the SDR as a composite unit in the bond market. In fact, there were no SDR issues in either 1982 or 1983, and only $800 million since the first one was offered in 1975.

The dollar also remains the predominant currency in the Eurocurrency market. In mid-1983 an estimated 80% of all Eurocurrency liabilities were in dollars, up marginally from the end of 1982 (see Table 8). The dollar's share has been rising steadily from its low of 72% at the end of 1979, when the dollar was very weak in relation to other major currencies. This increase in the dollar's share in recent years was largely at the expense of the German mark. By mid-1983 only 8½% of gross Eurocurrency liabilities were denominated in marks, down from more than a 17½% share at the end of 1979. The Swiss franc share has remained around 5%.

Eurocurrency market centers

One of the principal developments in the Eurocurrency market thus far in the 1980s has been the establishment of an offshore banking market in the United States with the start-up of international banking facilities (IBFs) in late 1981. By mid-1983 the liabilities of these IBFs had risen to $171 billion, making the United States the second largest market center with an 8.3% share of the total (see Table 8). This growth was pretty much in line with original expectations. Over the same period, the combined Eurocurrency liabilities of other market centers in the Western Hemisphere — Canada, the Bahamas, Cayman Islands, Panama, and the Netherlands Antilles — leveled out at around $305 billion. Eurocurrency liabilities booked in the Bahamas alone actually fell by some $18 billion. These figures indicate that while the advent of IBFs did not lead to the demise of other market centers, IBFs did take virtually all of the overall growth in Eurocurrency business booked in market centers located in American time zones.

London continues as the largest market center, with banking offices in the United Kingdom accounting for over 30% of the gross Eurocurrency liabilities, a share little changed in recent years. Among the offshore banking centers, Singapore has shown the most growth in recent years, having nearly doubled in size since the end of 1980 to $105 billion in mid-1983, or slightly more than 5% of the overall market.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Table 5

International bond issues — by type

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1976	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*
Eurobonds	**14 479**	**17 771**	**14 125**	**18 726**	**23 970**	**31 616**	**51 645**	**48 483**
By category of borrower								
U.S. companies	586	1 130	1 122	2 872	4 107	6 178	12 567	6 045
Foreign companies	5 323	7 347	4 540	7 183	9 032	12 882	13 372	16 621
State enterprises	4 138	4 667	3 291	4 524	5 839	7 496	14 650	11 247
Governments	2 239	2 936	3 643	2 433	3 045	2 629	7 683	8 495
*International organizations**	2 193	1 691	1 529	1 714	1 947	2 431	3 373	6 075
By currency of denomination								
U.S. dollar	9 276	11 627	7 290	12 565	16 427	26 830	43 959	38 406
German mark	2 713	4 131	5 251	3 626	3 607	1 277	2 588	3 776
Canadian dollar	1 407	655	—	425	279	634	1 201	1 039
Dutch guilder	502	452	394	531	1 043	529	645	735
French franc	39	—	103	342	986	533	4	—
Japanese yen	—	111	121	116	304	368	374	212
British pound	—	218	234	291	974	501	748	1 915
European composite units	99	28	165	253	65	309	1 980	2 095
Special drawing rights	—	—	32	107	39	446	—	—
Other	443	549	535	470	246	189	146	305
Foreign bonds outside the United States	**7 586**	**8 777**	**14 359**	**17 749**	**14 521**	**13 817**	**20 451**	**22 786**
By category of borrower								
U.S. companies	28	40	245	217	307	592	1 971	1 420
Foreign companies	1 654	1 421	2 110	3 463	3 157	3 384	4 376	7 872
State enterprises	2 439	2 427	3 163	3 284	2 830	3 701	5 488	4 305
Governments	1 307	2 043	5 771	7 663	4 086	2 762	3 577	3 129
*International organizations**	2 156	2 846	3 070	3 122	4 141	3 378	5 039	6 060
By currency of denomination								
Swiss franc	5 359	4 970	5 698	9 777	7 617	8 285	11 432	14 103
Japanese yen	226	1 271	3 826	1 833	1 088	2 457	3 418	3 793
German mark	1 288	2 181	3 779	5 379	4 839	1 310	2 952	2 614
Dutch guilder	597	211	385	75	259	481	956	1 085
British pound	—	—	—	—	168	746	1 214	520
Luxembourg franc	—	29	201	237	266	84	160	144
Other	116	115	470	448	284	454	319	527
Foreign bonds in the United States	**10 604**	**7 428**	**5 795**	**4 515**	**3 429**	**7 552**	**5 946**	**4 400**
By category of borrower								
*Canadian entities***	6 138	3 022	3 142	2 193	2 136	4 630	3 180	2 145
*European entities***	900	1 208	1 527	915	610	710	650	585
*International organizations**	2 275	1 917	459	1 100	550	1 375	1 700	1 220
Other	1 291	1 281	667	307	133	837	416	450
Total	**32 669**	**33 976**	**34 279**	**40 990**	**41 920**	**52 985**	**78 042**	**75 669**

***Includes regional development organizations.**
****Includes private companies, state enterprises, and government borrowers.**

Table 6

International bond issues — by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1976	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*
Industrial countries	**24 183**	**23 741**	**24 744**	**31 716**	**32 588**	**40 861**	**62 992**	**59 766**
Australia	1 081	1 074	1 218	593	539	991	2 250	2 360
Austria	682	1 384	1 027	1 218	1 859	1 557	1 668	1 261
Belgium	134	297	37	537	227	527	211	1 148
Canada	9 336	5 276	4 764	4 197	3 797	10 648	11 979	7 487
Denmark	995	796	1 018	752	1 125	695	1 269	1 719
Finland	332	358	952	699	392	672	815	861
France	2 720	1 944	1 286	2 106	2 820	3 156	8 456	6 447
Germany	374	567	174	609	455	279	1 101	3 070
Ireland	20	86	83	179	331	517	625	955
Italy	85	300	240	338	904	1 108	2 214	1 549
Japan	2 165	1 978	3 467	5 775	5 309	6 928	8 397	13 917
Netherlands	455	681	251	832	1 585	630	894	946
New Zealand	497	567	744	553	293	1 107	1 375	455
Norway	1 406	1 888	2 751	1 955	892	530	832	664
Portugal	—	50	—	—	50	30	206	76
South Africa	76	33	400	235	363	92	374	543
Spain	244	376	319	433	426	444	747	1 443
Sweden	1 111	1 574	876	1 530	3 244	2 050	2 479	3 751
United Kingdom	1 067	1 915	1 365	1 181	1 733	1 408	1 201	1 386
United States	493	1 354	2 973	6 767	5 587	6 770	14 538	7 389
Yugoslavia	71	120	141	96	37	—	—	—
*Other**	839	1 123	658	1 131	620	722	1 361	2 339
Developing countries	**1 789**	**3 533**	**4 447**	**3 263**	**2 629**	**4 886**	**5 073**	**2 473**
Latin American countries	**744**	**2 545**	**2 620**	**2 091**	**1 988**	**3 658**	**2 480**	**71**
Argentina	—	43	253	517	260	195	—	—
Brazil	268	732	843	930	349	60	91	—
Chile	—	—	—	82	103	30	—	—
Colombia	—	—	—	—	75	20	35	—
Ecuador	—	8	—	—	100	—	—	—
Mexico	448	1 282	568	363	544	3 012	1 919	—
Panama	14	27	211	111	25	25	—	21
Peru	—	—	—	—	—	25	—	—
Venezuela	—	438	588	55	398	291	385	—
*Other***	14	15	157	33	134	—	50	50
Asian countries	**659**	**549**	**667**	**702**	**429**	**1 068**	**2 145**	**2 190**
Hong Kong	—	129	—	—	30	70	40	50
India	—	—	30	45	65	271	225	60
Indonesia	—	—	102	85	45	97	482	328
Korea	59	69	65	44	68	323	172	556
Malaysia	10	43	141	151	—	—	807	831
Philippines	385	129	170	175	70	99	50	—
Singapore	205	154	70	25	—	30	125	70
Thailand	—	—	69	177	86	93	63	255
Other	—	25	20	—	65	85	181	40
Middle Eastern and African countries	**386**	**439**	**1 160**	**470**	**212**	**160**	**448**	**212**
Algeria	109	167	721	208	—	—	—	—
Egypt	—	—	—	—	30	—	75	—
Israel	119	111	220	170	144	117	200	135
Ivory Coast	10	—	—	—	14	—	—	—
Morocco	44	28	61	22	24	—	—	—
United Arab Emirates	—	42	—	20	—	—	20	—
Other	104	91	158	50	—	43	153	77
Centrally planned countries	**71**	**248**	**30**	**75**	**65**	**75**	**65**	**75**
China	—	—	—	—	—	—	65	50
Hungary	—	174	—	—	65	20	—	—
Poland	71	74	30	56	—	—	—	—
*Other****	—	—	—	19	—	55	—	25
International organizations****	**6 626**	**6 454**	**5 058**	**5 936**	**6 638**	**7 163**	**9 912**	**13 355**
Total	**32 669**	**33 976**	**34 279**	**40 990**	**41 920**	**52 985**	**78 042**	**75 669**

*Includes multinational organizations.
**Includes unallocated.
***Includes COMECON institutions.
****Includes regional development organizations.

Table 7

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1976	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*
Industrial countries	**11 255**	**17 206**	**28 950**	**27 248**	**39 100**	**86 022**	**42 471**	**38 367**
Australia	12	360	212	941	2 475	1 680	4 721	2 979
Belgium	—	—	40	1 000	2 833	360	1 172	883
Canada	885	3 292	5 705	1 845	1 743	4 112	3 838	958
Denmark	607	868	2 242	1 205	1 720	1 661	789	1 586
Finland	300	314	550	92	1 040	463	631	283
France	587	2 325	1 915	2 955	1 745	3 912	5 703	1 708
Greece	323	204	509	1 010	1 333	1 039	770	1 085
Ireland	434	440	616	687	237	1 361	401	765
Italy	355	1 024	2 485	3 708	6 268	6 030	3 657	2 950
New Zealand	—	538	480	540	675	476	3 411	70
Norway	473	182	1 517	935	685	713	1 769	970
Portugal	50	122	677	887	745	1 590	1 388	849
South Africa	650	—	150	52	388	287	1 479	752
Spain	2 037	1 973	2 426	4 184	5 457	3 242	1 849	3 013
Sweden	440	1 446	1 872	1 263	1 370	1 867	649	3 188
United Kingdom	1 671	1 992	3 899	795	1 470	747	1 635	1 304
United States	677	826	1 206	2 348	6 719	54 784	6 516	12 862
Yugoslavia	125	488	962	2 086	1 359	684	719	615
*Other**	1 629	812	1 487	715	838	1 014	1 374	1 547
Developing countries	**15 017**	**20 976**	**37 302**	**47 964**	**35 054**	**45 264**	**41 519**	**32 999**
Latin American countries	**8 664**	**9 917**	**21 332**	**28 077**	**24 103**	**30 152**	**26 719**	**15 309**
Argentina	958	849	1 461	2 965	2 506	2 534	1 565	1 750
Brazil	3 232	2 814	5 634	6 278	4 158	5 751	5 716	4 475
Chile	208	591	1 045	867	1 322	2 204	1 194	1 319
Colombia	110	43	882	754	608	1 030	741	459
Ecuador	87	385	952	593	1 209	934	815	431
Mexico	1 993	2 727	7 250	8 243	5 971	7 530	7 953	5 138
Panama	152	147	553	155	385	255	378	413
Peru	395	189	—	596	480	1 407	1 069	500
Venezuela	1 185	1 666	2 054	6 830	6 715	7 559	6 799	237
*Other***	344	506	1 501	796	749	948	489	587
Asian countries	**2 830**	**4 277**	**7 921**	**10 551**	**7 142**	**10 288**	**8 403**	**8 849**
Hong Kong	85	408	390	680	407	664	33	—
India	—	50	75	50	771	377	284	809
Indonesia	470	817	1 118	1 061	1 435	725	1 250	1 497
Korea	738	1 265	2 651	3 258	1 917	2 824	2 923	3 245
Malaysia	207	212	858	1 168	—	1 725	1 909	950
Pakistan	—	27	76	214	300	350	455	365
Philippines	970	698	2 073	2 067	1 056	1 257	635	815
Thailand	100	140	192	543	676	692	268	349
Other	260	660	488	1 510	580	1 674	646	819
Middle Eastern and African countries	**3 523**	**6 782**	**8 049**	**9 336**	**3 809**	**4 824**	**6 397**	**8 841**
Algeria	643	723	2 576	1 906	40	—	26	1 964
Egypt	108	250	60	19	203	63	353	300
Ivory Coast	155	265	73	435	135	499	434	30
Morocco	641	797	605	500	420	774	326	294
Nigeria	—	1 000	825	1 373	1 330	1 802	2 042	1 853
Turkey	170	34	100	3 036	—	100	277	1 078
United Arab Emirates	55	1 086	726	401	101	363	93	901
Other	1 751	2 627	3 084	1 666	1 580	1 223	2 846	2 421
Centrally planned countries	**2 503**	**3 394**	**3 767**	**7 325**	**2 809**	**1 791**	**765**	**1 212**
China	—	—	—	3 395	181	370	43	10
East Germany	215	832	642	796	303	470	8	392
Hungary	300	300	700	260	550	550	340	683
Poland	525	19	374	849	800	—	—	—
Soviet Union	282	234	650	—	—	25	374	68
*Other****	1 181	2 009	1 401	2 025	975	376	—	59
International organizations******	**74**	**190**	**160**	**275**	**429**	**302**	**150**	**1 321**
Total	**28 849**	**41 766**	**70 179**	**82 812**	**77 392**	**133 379**	**84 905**	**73 899**

*Includes multinational organizations.

**Includes unallocated.

***Includes COMECON institutions.

****Includes regional development organizations.

Table 8

Eurocurrency market size

measured by foreign-currency liabilities at end of period, billions of dollars

	1976	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*	*June 1983*
By market center:								
European centers	**406**	**511**	**656**	**867**	**1 045**	**1 202**	**1 273**	**1 239**
United Kingdom	201	232	290	385	485	590	636	635
France	50	64	80	101	124	134	140	127
Luxembourg	34	46	55	76	84	82	83	79
Belgium	20	22	37	48	62	73	72	74
Netherlands	21	27	38	47	55	57	55	52
Italy	17	23	30	37	46	49	43	37
Switzerland	17	20	30	34	35	35	34	34
Austria	—	10	13	18	23	23	25	25
Germany	14	16	21	25	25	26	24	23
Spain	7	9	12	17	21	24	19	17
Sweden	3	4	5	8	11	13	13	14
Denmark	—	2	2	3	3	4	4	4
Ireland	—	2	2	2	4	4	4	4
Unallocated	22	34	41	66	67	88	121	114
*United States**	—	—	—	—	—	46	147	171
Japan	35	36	48	61	100	123	124	126
Canada	21	25	33	40	54	66	65	67
Offshore banking centers	**133**	**168**	**212**	**265**	**325**	**424**	**448**	**453**
Bahamas	79	90	105	112	126	150	132	137
Singapore	17	21	27	38	54	86	103	105
Bahrain	6	16	23	29	38	51	59	57
Hong Kong	6	8	16	21	32	43	53	54
*Cayman Islands***	12	16	18	27	33	42	47	46
Panama	11	15	20	33	35	42	43	43
Netherlands Antilles	2	2	3	5	7	10	11	11
By currency of denomination:								
U.S. dollar	476	562	703	887	1 138	1 446	1 633	1 641
German mark	70	104	141	193	190	184	189	175
Swiss franc	24	35	43	62	83	110	100	98
Japanese yen	2	4	9	15	17	24	27	29
British pound	6	10	15	23	36	30	26	25
French franc	5	7	11	17	22	17	18	20
Dutch guilder	5	8	11	13	12	14	17	20
*Other currencies****	7	10	16	23	26	36	47	48
By type of entity:								
Nonbanks	109	135	174	245	327	428	474	489
Official monetary institutions	80	100	115	145	150	132	90	84
*Other banks****	406	505	660	843	1 047	1 301	1 493	1 483
Gross market size	**595**	**740**	**949**	**1 233**	**1 524**	**1 861**	**2 057**	**2 056**
Interbank liabilities within market area	**281**	**361**	**471**	**655**	**819**	**1 002**	**1 125**	**1 111**
Net market size	**314**	**379**	**478**	**578**	**705**	**859**	**932**	**945**

*International banking facilities only.
**U.S. bank branches only.
***Includes unallocated.

Table 9

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month*

	Eurodollar		Euro-Canadian dollar		Euroyen		Euro-French franc		Euromark		Eurosterling		Euro-Dutch guilder		Euro-Swiss franc	
	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.
1976																
January	5.25	5.88	9.05	8.75	5.06	6.22	8.00	8.25	3.69	4.00	10.50	10.62	4.75	4.87	1.12	2.25
February	5.56	6.31	9.65	9.18	5.31	6.34	10.25	10.25	3.62	3.87	9.25	10.00	2.75	3.50	1.69	2.44
March	5.50	6.19	10.27	10.25	6.19	7.02	11.00	11.00	3.19	3.69	9.87	10.50	3.00	3.62	1.44	2.31
April	5.38	5.94	9.74	9.50	5.06	6.03	9.75	11.12	3.31	3.56	10.75	11.12	3.37	4.00	1.19	1.94
May	6.50	7.25	9.70	9.75	6.94	8.27	9.75	10.34	3.75	4.31	12.25	12.62	5.00	5.37	1.75	2.56
June	6.00	6.81	9.33	9.50	6.06	7.46	9.37	10.37	4.19	4.75	14.37	13.75	7.87	7.87	1.06	1.75
July	5.63	6.50	9.19	9.38	6.25	7.36	10.12	10.12	4.31	4.87	12.62	12.75	8.75	9.00	1.56	2.25
August	5.56	6.06	9.87	9.50	5.94	6.86	10.25	11.00	4.37	4.94	13.37	13.75	13.50	11.37	1.19	2.00
September	5.75	6.13	9.58	8.38	6.56	7.09	12.00	11.75	4.62	5.12	16.25	16.50	13.75	11.75	2.25	2.37
October	5.31	5.75	9.32	9.13	6.06	6.92	12.50	12.75	4.50	4.75	20.75	20.00	8.75	8.50	1.94	2.25
November	5.13	5.31	8.73	8.88	6.69	6.22	12.00	12.12	4.62	4.69	16.25	16.25	7.12	6.87	2.37	2.56
December	5.00	5.38	8.22	8.13	6.62	6.44	12.62	12.62	4.69	4.75	16.12	14.75	6.25	6.25	1.44	2.12
1977																
January	5.25	5.81	8.41	8.25	5.94	6.81	11.87	12.37	4.50	4.75	13.00	12.25	6.50	6.62	1.37	1.75
February	5.13	5.63	7.82	7.88	5.62	6.37	11.12	11.75	4.56	4.69	13.00	13.25	5.50	5.75	2.50	2.75
March	5.19	5.56	7.72	7.38	6.44	6.75	10.37	11.00	4.44	4.50	9.50	10.12	5.87	5.87	3.06	3.31
April	5.25	5.44	7.83	7.38	5.37	5.87	9.75	9.87	4.31	4.44	8.87	9.50	4.12	4.75	3.12	3.37
May	6.06	6.31	7.18	7.00	5.62	5.94	10.50	10.62	3.94	4.12	11.75	11.00	3.00	4.00	4.00	4.37
June	5.75	6.06	7.32	7.00	5.87	6.25	9.25	9.37	3.87	4.00	8.62	9.62	3.25	4.50	3.25	3.62
July	6.25	6.50	7.22	7.38	6.00	6.25	11.87	11.75	3.81	3.94	8.50	9.50	2.75	4.00	2.75	3.31
August	6.25	6.50	7.74	7.88	5.06	5.56	10.25	10.87	3.87	3.94	7.37	7.87	3.87	4.44	2.12	2.75
September	6.87	7.12	7.22	7.00	4.00	4.81	8.87	10.00	3.94	4.00	6.37	6.87	4.62	5.12	2.50	2.75
October	7.19	7.37	7.58	7.38	4.00	4.31	10.25	10.87	3.94	3.94	5.12	5.87	4.62	5.00	2.00	2.31
November	6.88	7.25	7.53	7.44	0.81	2.44	13.62	13.62	4.06	4.06	7.37	8.06	6.12	6.31	2.75	2.75
December	7.19	7.50	7.10	7.13	1.81	2.75	13.25	14.00	2.50	2.81	6.62	7.12	5.87	5.87	1.37	1.87
1978																
January	7.25	7.62	7.15	7.63	2.94	3.31	13.25	13.37	2.94	3.00	6.75	7.25	4.69	4.62	0.75	1.37
February	7.19	7.62	7.49	7.50	2.50	3.25	12.87	12.00	3.19	3.19	7.69	8.12	5.25	5.12	0.31	0.50
March	7.50	7.81	7.98	7.88	1.19	2.56	8.87	9.37	3.31	3.31	7.37	8.00	4.75	4.75	0.56	0.81
April	7.62	7.87	8.11	8.19	2.12	2.87	9.37	9.75	3.31	3.44	10.12	10.37	4.44	4.56	0.87	1.19
May	8.00	8.44	8.35	8.00	2.69	3.31	9.25	9.75	3.44	3.56	10.56	11.12	4.75	5.12	1.31	1.62
June	8.69	9.19	8.29	8.50	2.94	3.62	10.00	10.37	3.37	3.50	11.37	12.00	4.37	5.12	1.50	1.94
July	8.50	8.81	8.07	8.88	1.56	2.31	9.12	9.87	3.50	3.75	10.87	11.25	5.75	6.37	1.69	2.00
August	8.87	9.25	9.30	9.13	2.50	2.81	8.87	9.37	3.44	3.62	11.37	11.75	5.50	5.87	0.69	1.06
September	9.44	9.69	9.66	9.44	2.81	3.12	10.25	10.25	3.56	3.62	12.75	13.00	10.50	10.50	0.94	1.06
October	11.37	11.87	10.32	10.06	2.44	3.31	8.75	10.00	3.50	3.56	11.87	12.62	9.50	8.62	0.12	0.31
November	11.56	11.87	10.81	10.56	0.31	2.37	9.19	9.31	3.69	3.94	13.50	14.06	9.81	9.25	0.31	0.56
December	11.69	12.31	11.09	10.94	0.62	1.87	9.87	9.87	3.31	3.69	12.62	13.25	9.50	9.00	0.00	0.12
1979																
January	10.31	10.56	11.18	10.75	2.56	3.12	7.94	8.50	3.81	4.12	13.25	13.25	7.37	7.06	0.25	0.31
February	10.50	10.94	11.00	10.81	3.44	4.00	7.75	8.62	3.94	4.19	12.44	11.87	7.00	7.00	0.12	0.37
March	10.50	10.56	11.27	10.94	6.00	5.56	8.12	8.75	4.94	5.37	12.12	11.75	6.87	7.00	0.37	0.87
April	10.75	11.06	11.40	10.69	4.94	5.56	8.25	8.62	5.44	5.87	11.69	11.19	7.44	7.75	1.56	2.50
May	10.44	10.62	11.21	10.75	5.25	5.69	11.37	11.50	6.12	6.75	11.75	11.56	8.87	9.25	1.94	2.75
June	10.50	10.50	11.13	10.63	5.75	6.06	11.00	11.37	6.19	6.62	14.00	13.44	8.31	9.06	0.19	1.81
July	11.31	11.12	11.54	11.06	6.00	6.37	12.06	12.50	6.50	6.94	14.75	14.12	9.25	9.87	1.44	2.31
August	12.12	12.12	12.12	11.94	7.00	7.00	12.44	12.94	7.44	7.62	14.25	14.25	9.44	9.31	2.00	2.69
September	12.75	12.75	12.22	11.87	7.31	7.19	13.25	13.37	7.44	7.50	14.06	14.06	9.50	9.37	1.75	2.00
October	15.69	15.31	14.58	14.25	7.94	8.06	14.00	14.00	8.94	8.87	15.12	15.00	9.81	10.00	4.00	4.50
November	14.00	13.94	13.01	13.25	8.75	8.44	13.62	13.62	8.81	8.62	16.50	16.25	13.25	12.00	4.50	4.62
December	14.44	14.44	13.93	13.50	8.31	8.62	14.00	14.12	8.56	8.56	16.75	16.75	12.25	11.50	5.75	5.87

*Offer rates are generally .125% above bid rates.

Table 9 — continued

Eurocurrency deposit rates

prime banks' bid rates,* at or near end of month

	Eurodollar		Euro-Canadian dollar		Euroyen		Euro-French franc		Euromark		Eurosterling		Euro-Dutch guilder		Euro-Swiss franc	
	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.	3-mos.	6-mos.
1980																
January	14.37	14.37	13.92	13.56	8.25	8.25	12.81	13.37	8.37	8.44	18.00	17.00	11.12	11.12	5.37	5.62
February	16.94	17.00	13.65	14.25	10.12	10.37	13.87	14.62	9.31	9.37	18.50	18.37	12.25	12.81	5.50	5.75
March	19.69	19.56	16.46	15.62	15.50	15.00	14.12	14.50	9.69	10.06	18.25	18.37	11.12	11.62	7.12	7.50
April	14.37	13.69	15.25	14.00	12.50	11.37	12.75	12.87	9.06	9.00	17.25	16.37	10.25	10.12	6.12	6.25
May	10.12	10.25	11.47	10.75	12.25	11.37	12.50	12.62	9.37	9.00	16.75	16.12	11.00	10.62	5.37	5.37
June	9.75	9.94	11.25	10.75	12.25	11.12	12.25	12.25	9.37	8.81	16.75	15.25	10.37	10.37	5.69	5.69
July	9.81	10.06	10.44	10.68	12.25	11.37	12.12	12.00	8.25	7.81	15.62	14.25	9.31	9.25	5.12	5.25
August	12.25	12.50	10.62	10.87	11.62	11.12	12.12	12.37	8.50	8.31	16.62	16.25	10.56	10.44	5.87	5.75
September	13.81	13.94	11.50	12.25	12.25	11.50	12.06	12.56	8.87	8.87	15.87	15.00	10.12	10.25	5.75	5.75
October	15.37	14.87	12.62	12.87	9.62	9.12	11.31	12.00	8.94	8.81	16.75	16.12	9.31	9.31	5.44	5.12
November	18.06	16.87	13.88	13.75	10.12	10.12	11.37	12.37	9.56	9.31	14.62	14.44	9.94	10.00	6.12	6.12
December	17.55	16.37	16.88	15.37	9.25	9.62	11.75	12.25	8.87	8.87	14.75	14.25	9.31	9.37	6.00	5.75
1981																
January	17.50	16.75	17.12	16.00	8.50	8.50	10.87	11.87	9.37	9.37	13.75	13.12	9.44	9.50	6.00	6.00
February	16.62	16.75	17.00	16.62	8.62	8.37	12.87	13.00	14.25	13.37	12.75	12.12	11.50	11.50	8.37	8.37
March	14.81	14.81	16.50	16.12	7.62	7.75	12.37	12.50	12.31	12.00	12.50	12.37	10.19	10.25	7.62	7.62
April	16.87	17.00	17.13	17.00	7.37	7.37	13.50	13.62	12.44	12.44	12.37	12.37	11.25	11.50	9.50	9.50
May	17.75	16.94	18.36	17.38	7.75	7.87	19.50	18.50	12.68	12.68	12.37	12.75	12.37	12.50	10.00	10.12
June	17.81	17.25	19.10	18.38	7.50	7.88	23.00	21.00	12.38	12.38	12.50	12.81	11.75	11.75	9.88	9.88
July	18.68	18.68	20.87	20.50	7.12	7.37	21.50	21.25	12.44	12.56	14.62	14.62	12.87	12.62	9.25	9.62
August	18.44	18.56	21.63	21.00	7.50	7.50	27.50	25.00	12.44	12.68	13.87	14.00	13.63	13.38	8.87	9.31
September	17.75	18.06	19.75	20.12	7.69	7.88	27.00	25.25	12.12	12.25	17.00	17.00	12.87	12.87	11.31	11.44
October	15.69	16.00	18.75	18.75	7.25	7.31	17.50	18.50	11.44	11.44	17.50	18.50	12.75	12.69	10.62	10.37
November	12.00	12.62	15.37	15.37	7.31	7.25	16.62	17.37	10.31	10.06	15.00	14.62	11.12	11.12	9.56	9.50
December	13.75	14.81	15.37	16.37	6.12	6.87	17.00	18.00	10.50	10.56	15.69	15.69	10.75	10.75	9.25	9.25
1982																
January	14.50	15.00	15.25	15.62	6.37	6.62	16.56	17.19	10.12	10.12	14.44	14.50	10.06	10.12	8.50	8.62
February	14.94	15.06	15.00	15.25	6.44	6.75	15.62	16.50	9.94	9.94	14.00	14.00	9.50	9.62	7.69	8.25
March	15.37	15.44	16.25	16.38	6.75	6.81	22.50	20.50	9.13	9.13	13.50	13.56	7.31	8.56	5.50	5.81
April	14.94	14.87	15.75	16.06	6.94	6.94	22.00	21.75	8.87	8.81	13.62	13.62	8.56	8.56	4.31	5.00
May	14.38	14.44	15.88	15.63	7.13	7.13	26.75	23.75	8.56	8.56	13.38	13.38	8.69	8.69	4.25	4.94
June	15.81	16.00	17.38	17.63	7.25	7.31	16.75	18.00	9.00	9.13	13.06	13.06	9.00	9.13	5.06	5.94
July	13.06	13.88	15.38	16.00	7.13	7.38	16.00	17.38	8.88	9.13	11.81	11.81	8.94	9.25	4.25	5.13
August	11.88	12.44	14.19	14.50	7.31	7.44	23.75	22.75	8.19	8.44	10.81	10.81	8.06	8.19	4.00	4.88
September	11.44	11.94	12.88	13.13	7.25	7.50	18.00	19.00	7.75	7.94	10.50	10.50	7.81	8.19	4.38	4.81
October	10.00	10.19	11.63	11.63	6.88	6.94	20.00	20.00	7.00	7.00	9.44	9.44	6.69	6.75	3.56	4.13
November	9.88	10.13	11.25	11.25	7.25	7.14	19.75	20.38	7.06	7.06	10.44	10.38	6.56	6.81	4.06	4.06
December	9.19	9.50	10.00	10.13	6.75	7.10	24.00	22.00	5.88	5.94	10.44	10.31	5.19	5.38	3.25	3.44
1983																
January	9.25	9.56	10.25	10.31	6.56	6.92	20.00	20.00	5.63	5.69	11.50	11.44	5.06	5.13	2.75	3.38
February	8.75	8.88	9.38	9.38	6.63	6.85	23.00	21.25	5.25	5.38	11.25	13.19	4.56	4.75	3.00	3.38
March	9.63	9.75	9.25	9.50	6.38	6.78	12.31	13.75	4.94	5.13	10.69	10.63	4.25	4.69	3.88	3.88
April	8.88	9.06	9.13	9.25	6.19	6.69	12.88	14.38	5.00	5.06	10.19	10.06	5.69	5.81	4.38	4.38
May	9.44	9.63	9.38	9.63	6.31	6.31	13.38	15.75	5.06	5.25	10.25	10.25	5.81	6.69	4.75	4.75
June	9.69	9.94	9.19	9.69	6.50	6.50	14.94	16.69	5.19	5.50	9.63	9.88	5.38	5.88	4.63	4.75
July	10.19	10.63	9.38	9.88	6.50	6.56	13.50	15.25	5.06	5.50	9.81	10.25	5.63	6.00	4.75	4.88
August	10.25	10.63	9.38	9.88	6.63	6.63	15.00	16.75	5.50	5.94	9.75	10.13	6.25	6.44	4.44	4.81
September	9.50	9.69	9.13	9.38	6.69	6.69	14.31	15.81	5.75	5.88	9.56	9.56	6.19	6.25	4.13	4.31
October	9.63	9.69	9.19	9.38	6.31	6.31	12.88	14.00	5.81	5.81	9.25	9.38	6.06	6.19	4.13	4.19
November	9.75	9.94	9.38	9.56	6.75	6.69	13.19	14.13	6.19	6.19	9.25	9.44	6.19	6.31	4.06	4.19
December	9.81	10.06	9.50	9.75	6.31	6.38	12.19	12.31	5.88	6.13	9.31	9.50	6.00	6.25	3.75	3.94

*Offer rates are generally .125% above bid rates.

Table 10

Nominal effective exchange rates

Index number 1980-82=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures.

	United States	*Canada*	*Japan*	*Australia*	*France*	*Germany*	*Italy*	*United Kingdom*	*Austria*	*Belgium*	*Nether-lands*	*Spain*	*Swit-zerland*	*Den-mark*	*Norway*	*Swe-den*
1976																
January	100.2	120.4	75.5	121.5	117.9	79.6	161.5	101.8	88.9	94.9	91.7	145.3	72.9	114.5	101.4	119.1
February	99.8	122.0	76.2	121.6	119.4	81.6	147.0	101.9	89.4	95.4	91.9	135.6	74.1	114.7	101.9	119.2
March	100.5	123.3	77.0	121.8	117.9	83.4	138.5	98.8	90.0	96.8	92.1	133.3	75.6	116.0	102.6	119.9
April	101.0	123.8	77.7	121.7	117.8	85.1	130.4	94.1	91.3	98.3	92.8	134.2	77.3	118.6	104.1	120.5
May	101.1	124.4	77.9	121.8	117.1	84.4	134.8	92.2	90.8	98.3	92.3	133.8	79.0	118.8	104.6	120.8
June	101.3	125.4	78.1	121.8	116.8	84.3	137.0	90.3	90.5	97.8	92.2	133.9	80.1	118.4	104.5	120.8
July	100.9	125.4	79.2	121.9	113.8	84.5	139.3	91.4	91.0	97.8	92.6	133.7	79.5	117.7	103.8	120.2
August	100.8	123.6	80.2	121.9	110.0	85.8	138.9	90.8	92.0	99.2	93.7	133.4	79.1	118.3	104.3	120.9
September	100.1	124.9	80.9	121.9	110.5	86.7	136.6	87.2	92.7	100.0	95.6	133.4	78.9	119.2	105.2	122.0
October	100.4	125.4	79.8	122.2	108.5	88.8	134.3	81.9	93.9	102.7	97.0	133.2	79.5	120.3	106.9	124.3
November	101.1	123.8	78.8	119.8	108.1	89.3	132.5	81.9	94.3	103.3	97.8	132.8	79.6	119.6	107.4	125.1
December	101.9	119.7	79.2	104.0	107.3	89.9	131.1	83.7	94.6	104.2	98.2	132.2	78.7	119.8	107.6	125.9
1977																
January	101.3	[illegible]	80.1	106.7	108.1	89.8	129.6	85.7	94.7	103.4	97.7	131.8	77.4	119.0	106.5	124.4
February	101.5	[illegible]	82.0	106.8	108.3	89.6	129.5	85.9	94.5	103.2	97.7	131.1	76.7	118.9	106.6	123.7
March	101.7	115.7	83.3	107.1	108.0	89.9	128.5	86.1	94.8	103.5	98.0	131.4	75.6	119.4	106.8	124.2
April	101.1	115.6	84.7	107.2	107.9	90.3	127.8	85.9	95.1	104.0	98.5	131.0	76.0	117.3	106.6	120.2
May	101.1	115.9	84.0	107.1	107.9	90.7	127.6	85.7	95.2	104.4	98.7	130.3	76.0	116.5	106.8	119.8
June	101.0	114.8	85.4	107.1	108.1	90.8	127.6	85.7	95.2	104.4	97.7	129.3	76.8	116.1	106.9	118.0
July	99.8	114.1	87.5	107.2	109.0	92.7	126.1	84.7	96.3	104.5	97.6	109.4	78.1	115.8	105.9	118.3
August	100.7	112.8	87.2	105.8	108.8	91.8	127.3	86.2	95.8	104.9	98.0	104.9	78.8	115.7	106.0	116.3
September	100.9	113.0	87.4	106.0	108.7	92.1	127.6	87.0	95.6	104.6	98.0	105.5	80.3	115.0	104.8	107.4
October	99.8	110.0	91.0	105.6	108.6	92.7	126.0	87.2	95.7	104.2	97.6	104.8	82.5	114.6	103.3	107.2
November	98.5	108.6	94.3	104.6	107.5	93.3	124.9	88.6	95.8	103.7	97.2	105.1	84.5	113.1	102.8	106.0
December	96.7	109.4	94.6	103.7	105.9	95.1	121.9	88.3	96.0	105.3	98.1	104.6	87.4	113.7	104.6	104.1
1978																
January	95.7	108.6	93.8	103.0	105.8	94.7	120.2	90.7	95.7	106.2	98.8	104.3	89.9	114.8	104.4	103.9
February	95.8	107.4	93.8	102.4	101.6	96.1	121.2	90.3	96.0	107.3	99.6	104.0	92.9	115.9	101.5	104.0
March	94.7	105.9	96.9	101.6	103.5	96.9	120.0	87.4	96.4	107.9	100.7	103.4	92.1	116.3	99.2	103.7
April	94.4	104.4	101.5	101.1	106.6	96.3	119.3	84.6	96.4	107.2	100.6	102.9	91.8	116.4	98.5	104.3
May	95.2	106.9	100.3	101.4	107.5	95.2	120.2	84.7	95.8	106.2	99.6	103.4	90.8	116.9	98.9	105.1
June	93.5	106.2	105.5	100.4	107.8	94.9	120.1	84.5	95.5	105.3	99.2	104.3	93.5	116.8	98.4	104.9
July	91.2	105.3	112.2	98.7	109.4	94.3	119.4	85.7	94.9	104.2	98.3	104.6	96.0	115.6	96.8	104.7
August	89.3	103.3	117.6	96.7	108.9	94.7	117.8	85.6	94.7	104.8	98.2	105.9	101.5	114.7	96.9	104.5
September	89.5	100.9	116.3	96.4	107.1	95.1	117.6	85.6	94.2	105.1	98.3	107.3	107.1	115.2	97.0	103.9
October	87.4	98.9	118.3	95.4	106.3	98.1	114.9	84.3	95.2	107.5	100.2	108.8	104.5	117.2	98.6	102.7
November	89.5	100.3	114.6	95.7	106.1	97.8	114.2	85.0	95.2	107.5	100.3	110.1	98.9	117.3	98.5	103.5
December	89.8	99.7	112.0	95.6	106.4	98.6	113.4	85.7	95.5	107.4	100.8	109.7	98.1	117.0	97.2	102.8
1979																
January	89.7	98.7	110.5	95.2	107.1	99.1	112.8	85.7	95.9	108.0	101.4	110.2	97.2	118.3	97.0	102.4
February	90.2	98.3	109.1	94.9	106.5	99.1	112.7	86.0	95.9	108.1	101.3	111.7	97.3	118.4	96.7	102.4
March	90.3	100.2	106.0	94.5	106.3	99.1	112.7	87.7	95.8	107.5	101.3	112.3	97.0	117.4	96.9	102.5
April	90.9	102.9	101.4	94.6	105.9	98.3	113.8	90.4	95.3	106.6	100.5	115.0	96.1	116.7	96.9	102.9
May	91.7	102.2	100.7	94.9	105.2	98.5	113.6	90.4	95.1	105.7	100.0	119.6	96.3	114.9	96.7	103.7
June	91.6	100.6	100.2	94.8	105.2	98.9	113.1	92.1	95.2	105.7	99.4	118.5	96.9	112.7	96.4	104.1
July	89.6	100.7	99.7	94.2	105.0	99.2	113.3	96.3	95.6	106.1	99.1	115.1	96.8	113.3	95.5	103.8
August	90.1	100.2	99.2	94.6	104.9	99.1	113.9	95.5	96.1	106.1	99.4	115.5	96.6	112.9	96.0	104.1
September	90.0	100.7	96.9	94.8	105.3	100.1	113.5	92.7	97.7	106.6	100.0	114.5	98.4	113.8	96.4	104.0
October	91.3	100.1	93.8	95.1	106.1	101.1	111.9	90.9	98.6	107.1	99.9	115.1	97.8	113.4	97.4	104.1
November	92.7	100.0	88.2	94.8	107.0	102.2	111.5	90.6	99.3	107.2	100.2	114.5	96.8	112.9	96.5	103.9
December	91.1	100.5	89.2	94.3	107.6	102.5	111.4	92.0	99.4	106.8	101.1	112.3	97.6	108.5	96.0	103.5

Table 10 — continued

Nominal effective exchange rates

Index number 1980-82=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980																
January	90.3	100.8	89.7	94.0	107.4	102.2	111.4	94.1	99.5	106.7	101.1	112.0	97.0	107.2	96.5	103.3
February	91.0	101.7	87.6	94.2	106.9	101.8	111.9	96.2	99.7	106.4	100.8	112.2	95.2	106.6	97.8	103.5
March	93.9	100.8	87.9	95.3	106.4	100.6	110.5	96.6	99.5	105.8	100.4	112.8	92.7	105.3	98.7	103.7
April	94.7	99.8	87.6	95.8	106.8	100.1	109.3	97.6	99.2	106.0	99.9	109.6	93.8	104.7	99.1	103.9
May	90.7	100.0	94.2	95.3	106.6	100.8	109.2	98.0	99.5	106.8	100.0	106.9	95.3	105.1	98.3	103.7
June	88.6	101.5	98.1	95.5	106.9	100.6	108.6	98.1	99.7	107.0	100.3	106.7	95.7	105.7	98.0	103.3
July	88.4	101.4	96.3	95.8	107.6	100.8	107.9	98.9	100.1	107.1	100.7	104.6	96.3	106.3	97.7	103.3
August	89.5	101.0	95.7	96.6	107.0	100.1	107.9	100.5	100.0	106.4	100.6	104.0	95.4	105.5	98.2	103.7
September	88.7	100.3	99.8	96.4	106.6	99.9	107.2	101.5	99.9	106.0	100.6	102.5	95.9	105.1	98.3	103.9
October	88.9	100.0	103.0	96.6	106.3	98.6	106.3	103.8	99.2	105.0	99.9	102.5	96.3	104.1	98.4	104.4
November	91.1	99.0	102.5	97.5	104.7	97.7	105.8	106.1	98.5	104.2	99.3	103.1	95.8	103.1	98.8	104.8
December	92.0	98.3	105.3	98.2	104.4	97.4	105.3	106.0	98.4	103.6	98.7	101.8	94.6	103.0	97.9	104.7
1981																
January	91.5	98.7	109.3	98.5	103.9	96.5	104.2	109.9	98.1	102.9	97.9	100.7	93.6	101.5	97.2	104.5
February	94.5	98.9	110.0	99.5	102.4	95.6	103.1	110.0	97.6	102.0	96.8	99.9	92.6	99.6	98.6	106.1
March	94.7	99.6	108.4	100.2	102.4	97.4	101.6	106.8	98.4	101.8	96.8	99.8	93.5	99.3	99.0	106.0
April	96.6	100.1	106.3	101.2	102.3	97.2	99.6	106.4	98.7	101.8	96.4	99.9	93.4	98.7	99.9	106.5
May	99.8	99.9	105.7	102.9	99.8	96.3	99.0	106.7	98.3	101.8	95.4	100.9	93.7	97.6	100.9	107.0
June	101.9	100.2	105.5	105.1	99.9	95.7	98.3	103.4	97.8	101.3	95.2	100.3	96.6	97.5	99.8	107.1
July	104.3	100.2	102.9	107.8	100.0	95.6	98.3	100.1	98.1	101.1	95.2	99.6	97.9	97.8	99.4	107.1
August	105.9	99.6	103.5	108.8	99.1	95.4	98.3	99.2	98.4	101.2	95.2	99.2	96.8	97.3	100.3	107.0
September	103.0	100.9	103.4	107.9	100.6	97.4	98.4	94.9	99.3	102.6	96.9	99.3	99.7	100.5	101.4	100.4
October	102.2	100.5	101.6	106.8	98.9	99.9	95.6	94.5	100.9	102.4	99.4	97.9	104.8	101.0	101.0	96.1
November	100.2	101.5	104.8	105.1	97.8	99.7	94.6	96.5	100.5	101.7	100.1	97.5	109.4	100.4	101.3	95.8
December	100.3	101.7	107.2	103.9	97.1	99.5	94.5	97.5	100.1	100.4	100.1	96.9	108.7	99.1	102.9	95.6
1982																
January	101.8	101.4	105.1	103.4	96.7	99.4	94.2	98.0	100.3	100.0	99.9	96.9	108.5	98.2	102.9	95.7
February	104.9	100.1	101.7	103.0	96.4	99.2	94.3	98.6	100.1	97.6	100.0	97.2	108.9	97.0	103.9	96.0
March	106.7	99.9	100.0	102.1	96.5	100.8	93.6	98.0	100.5	91.6	101.5	95.2	110.7	95.4	104.6	96.2
April	107.9	99.8	99.4	102.3	96.3	101.8	92.8	97.4	101.0	91.0	101.3	95.0	107.9	95.1	105.0	96.1
May	105.9	98.6	101.3	101.2	97.2	102.7	92.8	97.2	101.6	91.7	101.7	95.3	105.4	96.4	104.2	95.6
June	111.1	96.2	97.6	102.0	93.1	103.0	92.5	98.8	101.6	91.4	102.3	94.7	103.8	94.7	105.1	96.2
July	112.3	96.9	96.9	100.9	90.7	103.3	92.7	99.1	101.8	91.4	102.6	94.4	104.7	94.0	103.9	96.3
August	112.5	99.0	95.7	98.2	90.4	103.4	92.6	99.2	102.0	91.1	103.2	94.6	104.6	93.7	99.5	96.9
September	113.3	100.0	94.6	97.0	89.4	103.7	92.5	99.6	102.2	90.6	103.9	95.0	104.3	93.2	97.4	96.8
October	114.9	100.8	92.4	97.0	89.7	104.4	91.9	100.5	102.7	90.3	104.9	94.5	104.4	95.4	97.5	85.5
November	115.0	101.2	95.6	97.2	90.1	104.8	91.1	97.5	103.0	90.5	105.3	92.4	104.7	96.7	98.5	82.4
December	111.3	99.5	103.0	96.7	91.6	106.7	92.1	92.9	103.8	90.8	105.7	83.9	107.3	98.2	98.2	81.2
1983																
January	109.7	100.2	106.7	97.3	91.8	106.9	92.8	89.4	103.6	91.1	106.3	82.6	111.3	98.9	97.4	81.0
February	111.0	100.5	105.9	96.8	91.9	107.0	92.6	88.2	103.6	91.0	106.2	81.9	110.3	98.6	98.0	81.1
March	112.0	100.9	105.8	89.3	90.8	108.9	91.3	86.4	104.8	92.2	106.5	80.5	108.4	98.7	97.8	81.2
April	112.5	100.4	106.4	87.5	87.7	109.1	91.3	90.2	104.4	91.5	105.1	80.1	109.9	98.7	98.7	81.5
May	112.2	100.6	107.9	88.2	86.8	108.5	90.8	92.9	104.0	90.8	104.8	79.5	110.6	97.5	99.3	81.7
June	114.3	100.8	106.6	89.4	86.4	107.6	90.7	93.6	103.4	90.2	104.6	78.3	110.6	96.2	98.5	82.2
July	115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August	117.0	101.2	106.2	91.5	85.6	106.5	89.6	94.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November	116.5	100.9	110.7	94.8	85.1	107.1	88.3	92.8	103.2	88.4	104.4	75.9	112.8	94.6	100.9	82.7
December	118.0	100.4	112.2	94.1	84.7	106.8	88.0	91.7	102.9	88.2	104.1	75.9	113.8	94.0	99.6	83.1

Table 11

Real effective exchange rates

Index numbers 1980-82=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1976																
January	95.7	113.5	94.5	107.6	109.7	100.3	107.1	76.4	96.5	112.5	103.7	82.0	98.8	102.0	101.7	107.4
February	94.9	114.8	95.6	107.7	109.0	102.8	100.2	77.2	97.2	113.0	104.3	77.3	99.9	101.0	101.0	107.9
March	95.0	116.3	96.8	108.7	106.9	104.3	97.2	74.7	97.9	115.4	103.7	77.9	100.8	106.5	101.6	108.4
April	94.9	117.0	97.8	109.2	106.7	106.0	94.5	71.2	98.9	116.3	104.2	79.7	102.1	108.1	103.5	108.9
May	94.5	117.8	97.9	110.2	104.9	104.7	99.9	70.4	97.9	115.9	103.0	85.0	103.6	108.8	103.3	109.5
June	94.6	118.2	97.8	110.6	105.0	104.1	103.0	68.9	97.0	115.8	103.2	83.1	104.0	108.5	103.3	109.7
July	94.1	118.1	99.8	110.0	103.0	104.0	106.1	70.6	96.9	115.4	102.7	82.2	102.2	105.9	102.8	109.5
August	93.6	116.4	101.3	109.9	100.5	105.1	105.7	70.9	98.0	116.3	104.5	82.3	101.1	106.9	102.4	109.4
September	93.0	117.8	102.1	109.5	101.1	105.4	104.4	68.4	98.4	117.9	105.7	83.9	100.3	110.3	104.7	110.3
October	94.4	116.9	99.8	109.3	100.1	106.8	103.2	64.5	100.2	120.7	107.8	84.3	100.3	111.8	105.7	111.7
November	95.2	115.0	98.0	107.6	99.2	106.6	102.8	65.6	100.6	120.7	108.2	86.3	99.6	111.8	106.8	112.6
December	95.5	112.2	98.2	94.1	99.1	106.8	102.7	67.8	101.3	121.2	108.3	85.8	98.3	111.7	106.3	113.0
1977																
January	94.7	113.6	98.6	96.9	99.7	106.2	101.5	70.8	101.9	120.2	106.8	87.4	96.3	109.7	105.6	112.6
February	94.9	111.6	100.3	97.5	100.0	105.5	102.1	71.3	101.2	120.0	106.8	88.2	95.0	108.6	105.7	113.2
March	94.8	109.9	101.4	98.1	99.6	105.6	101.7	71.8	101.4	119.7	107.6	91.0	92.9	110.5	106.2	112.8
April	94.2	109.9	102.7	98.1	99.1	105.6	101.7	72.7	101.3	119.6	108.6	92.4	93.1	108.6	106.5	109.3
May	94.2	110.0	101.3	97.8	99.4	105.5	101.8	73.3	101.4	119.3	109.4	92.4	92.6	107.1	106.1	109.3
June	94.2	108.8	102.5	98.0	99.7	105.1	101.7	73.7	101.6	119.3	109.0	93.5	93.5	107.4	105.5	107.4
July	93.1	108.8	104.4	98.5	100.6	106.9	100.2	73.3	102.8	119.1	109.5	79.9	94.6	107.5	104.6	109.0
August	93.9	107.4	103.8	97.5	102.2	105.0	100.8	74.8	102.3	118.8	109.6	77.6	94.9	108.9	104.4	106.7
September	94.1	108.0	103.5	98.4	101.5	104.8	102.1	75.5	101.9	119.0	109.2	79.5	96.6	108.6	103.4	99.8
October	94.3	104.3	106.8	97.9	101.2	104.9	101.0	76.0	101.9	118.4	107.4	80.4	99.0	113.0	102.4	98.7
November	93.3	103.0	109.9	97.4	99.8	105.3	100.4	77.5	102.1	117.7	106.8	82.4	101.1	112.3	101.5	98.2
December	91.7	103.6	109.7	96.8	99.3	106.7	98.0	77.2	102.3	119.0	106.4	82.6	104.4	112.3	103.8	97.0
1978																
January	90.8	103.6	107.9	96.0	98.7	106.1	97.8	80.1	102.9	118.9	106.3	83.2	105.9	112.5	105.0	97.7
February	90.6	102.8	107.5	95.8	95.3	107.2	99.0	79.8	103.3	120.3	109.2	83.2	109.1	114.2	103.0	97.3
March	89.6	101.8	110.6	95.2	98.0	107.8	98.1	77.4	103.6	120.2	109.8	83.7	107.6	114.1	100.6	97.5
April	89.5	100.9	115.1	94.7	100.6	106.9	98.4	75.1	103.3	119.6	109.0	84.1	106.9	114.4	100.5	98.2
May	90.8	102.7	113.0	94.8	100.9	105.9	100.0	75.5	102.2	118.3	107.6	84.8	105.0	114.6	100.6	98.7
June	89.5	101.9	118.3	94.2	101.7	105.2	100.3	75.5	101.7	117.3	106.8	86.1	107.6	114.5	99.3	98.2
July	87.8	101.0	124.5	92.7	104.0	104.0	99.8	76.8	101.3	116.0	105.4	86.9	109.4	112.7	97.8	98.5
August	86.0	99.6	129.5	91.4	103.5	104.2	98.7	76.9	101.2	116.4	105.0	88.3	115.3	112.4	97.6	98.8
September	86.3	98.2	126.8	91.9	101.8	104.2	99.3	77.3	100.3	116.9	104.8	90.3	120.9	113.4	98.9	97.7
October	84.6	96.9	127.5	91.2	101.4	106.9	97.3	76.3	101.4	119.4	106.2	92.9	117.3	116.5	99.8	97.5
November	86.9	98.3	122.7	92.0	100.7	106.5	97.2	76.9	101.4	119.2	105.9	95.3	111.5	117.3	99.3	98.0
December	87.4	97.3	119.3	92.1	101.2	107.2	97.0	77.6	101.7	118.6	106.1	95.9	110.3	116.1	98.6	97.5
1979																
January	87.2	97.8	117.0	91.8	102.2	107.5	97.6	77.9	102.1	118.3	106.7	96.7	106.3	115.6	96.3	97.3
February	87.4	98.3	115.1	92.2	101.5	107.3	98.4	78.3	101.2	117.9	105.8	98.6	110.1	114.3	95.9	98.6
March	87.3	100.3	111.7	91.9	101.3	107.5	99.1	80.1	100.3	117.2	104.9	99.4	109.5	114.3	94.9	98.5
April	88.0	103.3	106.7	91.6	100.7	106.7	101.1	83.2	98.9	115.5	103.4	102.7	107.5	112.3	95.1	98.7
May	88.8	102.3	106.2	91.7	100.4	106.7	101.2	83.7	98.1	113.9	102.2	107.4	107.8	110.0	95.7	100.0
June	88.6	100.5	105.9	91.2	100.5	106.5	100.7	86.0	97.8	113.0	101.2	106.6	111.6	108.7	94.3	100.7
July	86.5	100.5	106.2	90.9	100.4	106.5	100.7	91.3	98.0	113.7	100.0	104.4	110.0	110.3	92.0	100.5
August	86.7	100.4	106.4	91.7	100.3	106.2	101.6	90.9	98.1	113.1	100.9	104.8	107.6	112.3	92.5	101.4
September	86.8	101.0	104.1	91.8	100.9	106.7	102.3	88.5	99.6	112.9	101.2	105.3	108.9	114.3	92.4	101.0
October	89.1	100.4	99.9	91.6	101.3	107.2	101.9	87.1	100.4	113.0	100.4	106.2	106.9	113.6	94.4	100.7
November	90.5	100.0	93.8	91.9	101.9	108.0	102.0	86.9	101.0	113.3	100.4	106.7	106.6	111.5	93.0	101.4
December	88.9	100.6	95.3	91.3	102.5	107.9	103.4	88.3	100.7	112.6	100.8	104.9	106.8	106.7	92.5	100.9

Table 11 — continued

Real effective exchange rates

Index numbers 1980-82=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980																
January	87.8	102.7	96.2	90.3	101.4	107.6	103.8	91.8	100.4	111.1	102.4	105.2	104.0	104.9	93.0	100.6
February	88.8	102.5	94.2	91.9	101.0	107.0	105.7	94.2	100.6	109.7	101.3	105.3	100.1	103.9	96.3	101.1
March	91.9	100.1	95.2	92.6	101.4	105.2	104.7	95.2	100.0	108.5	100.5	105.9	97.2	103.3	96.9	101.6
April	93.3	98.3	95.5	92.2	101.7	104.8	103.5	96.2	99.0	108.3	99.6	103.3	98.1	102.5	97.0	101.0
May	89.2	98.2	103.1	91.6	101.4	105.1	104.0	97.2	99.9	108.5	99.9	101.5	99.5	103.3	96.6	100.7
June	87.2	99.8	107.5	91.7	101.6	104.8	103.6	98.2	100.4	108.2	99.9	102.2	98.9	103.5	95.5	100.6
July	87.6	99.6	104.5	92.5	102.7	104.3	102.9	99.1	101.3	108.1	100.8	100.4	99.0	105.4	95.9	100.5
August	88.6	99.4	104.0	94.1	103.6	103.0	103.1	100.8	101.1	107.0	100.2	99.9	96.9	105.2	95.7	101.2
September	87.3	99.5	108.4	94.3	103.6	102.2	103.2	102.2	101.0	106.6	100.1	99.4	97.1	103.7	96.8	101.6
October	88.9	98.9	109.7	94.2	103.3	100.3	102.9	104.1	100.3	105.4	99.0	99.9	97.9	103.7	97.4	102.0
November	90.9	98.1	108.5	95.3	101.6	99.5	102.8	106.0	99.1	105.0	98.2	100.9	98.5	102.5	98.2	102.3
December	91.9	97.4	110.6	96.0	102.6	98.8	102.2	105.4	99.6	104.2	97.6	99.8	97.2	102.8	97.4	102.2
1981																
January	91.9	98.6	113.0	96.1	101.2	97.6	102.0	109.8	99.9	102.6	98.9	98.5	95.3	99.4	97.8	102.8
February	95.5	97.9	111.9	97.8	100.9	96.5	100.5	109.6	98.9	101.7	97.4	97.7	94.7	97.6	100.0	104.5
March	96.2	98.6	108.7	98.8	99.9	98.6	99.5	106.1	99.5	101.2	97.4	98.7	95.7	98.7	101.1	104.5
April	98.5	98.9	105.8	99.6	101.2	98.0	98.3	105.7	99.7	100.9	96.6	99.3	94.2	99.1	102.0	104.0
May	101.6	99.3	105.0	101.2	98.3	97.1	98.4	106.2	98.7	100.4	95.9	100.9	94.1	98.2	103.0	105.0
June	103.6	99.9	104.1	104.0	98.9	96.4	97.9	103.2	98.0	99.8	95.6	100.3	97.9	98.9	101.7	104.5
July	105.6	100.3	100.8	107.2	100.6	95.9	98.1	99.7	98.1	99.2	95.9	99.4	98.2	98.6	100.4	105.6
August	106.5	100.3	101.6	108.2	99.9	95.8	98.4	98.8	98.0	99.1	96.0	99.0	97.8	98.0	100.6	105.3
September	102.9	102.0	101.4	107.4	102.6	97.0	99.5	94.6	98.6	99.9	98.0	99.2	100.3	101.0	102.4	99.8
October	103.5	101.1	98.5	106.2	99.2	99.1	97.6	94.9	100.6	100.4	100.1	98.6	104.3	101.7	101.2	96.8
November	101.5	101.4	101.2	104.7	99.9	98.4	97.0	97.0	99.7	99.5	100.3	98.4	107.8	100.8	101.5	96.3
December	101.5	101.9	103.3	103.3	99.3	97.9	97.4	98.1	99.5	99.0	99.8	98.3	106.9	100.1	102.4	96.4
1982																
January	102.9	101.5	100.2	103.4	99.1	97.8	97.6	98.6	99.7	97.8	101.2	98.4	105.7	97.7	104.3	97.7
February	105.3	100.7	96.8	104.5	100.0	97.1	98.4	99.3	99.3	95.3	100.7	99.4	104.8	96.5	105.5	98.6
March	106.7	101.1	94.9	104.7	100.0	98.1	98.0	98.6	100.6	91.7	101.6	98.4	105.7	95.6	104.9	99.1
April	107.1	101.8	94.2	105.3	100.4	99.0	97.2	97.8	100.6	91.1	101.0	99.1	103.4	95.9	105.7	99.0
May	104.9	100.7	95.6	104.6	102.4	99.4	97.3	97.4	100.7	92.2	101.7	100.3	101.4	96.6	105.4	98.5
June	110.6	97.8	91.3	106.1	97.8	99.5	96.8	99.0	100.6	91.8	102.6	99.9	100.4	96.2	105.1	98.7
July	112.5	97.8	90.0	105.6	95.7	99.5	97.3	99.7	100.9	91.7	102.6	99.6	100.6	95.7	103.8	99.3
August	112.8	99.6	88.9	103.8	95.0	99.5	97.8	99.8	100.8	91.6	102.8	99.9	100.7	96.0	99.6	100.0
September	112.4	102.0	88.1	103.2	94.1	99.5	98.2	100.5	100.8	91.0	103.3	101.0	101.1	95.8	98.4	100.0
October	115.2	101.3	85.1	102.8	95.3	99.6	97.3	101.4	100.8	90.1	103.6	100.6	101.5	98.3	98.3	91.0
November	115.5	101.5	87.8	102.7	95.2	99.5	97.8	98.7	100.9	90.3	103.7	99.3	101.4	98.9	99.2	89.1
December	111.9	99.5	94.2	102.4	97.1	100.7	99.1	95.0	102.2	91.0	103.4	91.7	102.9	100.0	99.2	88.1
1983																
January	109.4	100.7	97.6	103.7	96.9	100.5	100.9	91.9	102.3	91.3	104.4	91.3	106.2	100.8	98.7	88.9
February	110.2	101.3	96.8	103.7	98.4	99.8	99.9	90.8	102.5	92.8	103.6	91.5	104.9	100.9	100.0	88.6
March	110.6	102.7	96.5	96.3	97.6	101.1	99.7	89.2	103.8	94.0	103.5	90.3	103.0	101.0	99.3	88.7
April	110.4	103.0	96.1	94.6	96.1	100.9	100.1	93.2	102.5	93.0	101.7	90.4	103.9	100.9	100.3	89.3
May	110.3	103.3	96.9	95.4	94.6	100.1	100.2	96.2	101.6	92.7	101.3	90.3	104.1	100.0	101.4	90.0
June	112.6	103.2	95.3	96.6	94.3	99.3	100.0	96.9	101.0	92.3	101.0	89.4	104.0	98.4	100.8	91.2
July	113.2	103.7	95.3	97.2	95.0	98.3	100.1	96.4	101.3	91.8	101.3	87.7	104.7	97.2	101.2	92.1
August	115.2	103.7	93.6	99.3	94.3	98.0	99.4	97.1	100.5	91.2	100.8	87.8	105.6	95.7	100.9	92.8
September	113.9	104.3	94.7	100.7	95.0	98.1	99.0	97.3	100.5	90.5	100.9	88.1	105.5	97.4	102.3	92.4
October	113.2	103.0	97.2	102.0	95.5	98.7	98.8	94.9	101.3	89.9	101.7	87.7	106.0	97.8	102.5	92.2
November	114.3	103.1	96.9	103.9	95.7	97.8	98.8	95.2	100.7	89.5	101.3	87.9	105.7	96.9	102.2	93.1
December	115.7	102.5	97.8	103.4	95.8	97.4	98.8	94.1	100.3	89.0	101.1	88.1	106.5	96.6	101.1	93.8

Central bank discount rates

	1980	1981	1982	1983				Current	
	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	end Dec	Jan 13 1984	effective since
United States	13.00	12.00	8.50	8.50	8.50	8.50	8.50	8.50	Dec 15, 82
Canada	17.38	14.66	10.05	9.42	9.42	9.49	9.96	9.74	Jan 12, 84
Japan	7.25	5.50	5.50	5.50	5.50	5.50	5.00	5.00	Oct 22, 83
United Kingdom	14.00	14.37	10.00	10.56	9.50	9.50	9.00	9.00	Oct 4, 83
Belgium	12.00	15.00	11.50	11.00	9.00	9.00	10.00	10.00	Nov 24, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	7.50	5.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
Italy	16.50	19.00	18.00	18.00	17.00	17.00	17.00	17.00	Apr 9, 83
Netherlands	8.00	9.00	5.00	3.50	4.50	5.00	5.00	5.00	Sep 9, 83
Austria	6.75	6.75	4.75	3.75	3.75	3.75	3.75	3.75	Mar 18, 83
Denmark	11.00	11.00	10.00	8.50	7.50	7.50	7.00	7.00	Oct 27, 83
Finland	9.25	9.25	8.50	8.50	8.50	9.50	9.50	9.50	July 1, 83
Ireland	12.75	17.15	14.35	14.35	13.80	13.00	11.50	11.50	Nov 11, 83
Norway	9.00	9.00	9.00	9.00	9.00	8.00	8.00	8.00	Jun 6, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	12.00	11.00	10.00	9.00	8.50	8.50	8.50	8.50	Apr 8, 83
Switzerland	3.00	6.00	4.50	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
Argentina	87.01	98.50	128.54	128.54	128.54	183.75	183.75	183.75	Sep 5, 83
Korea	15.50	10.50	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	14.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	10.50	9.50	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	13.00	14.00	13.00	13.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	18.90	12.37	8.95	8.63	8.98	9.37	9.56	9.45	9.48	9.34	9.37
Canada	15.61	14.53	10.63	9.28	9.45	9.31	9.35	9.25	9.35	9.43	8.78
Japan	9.49	6.70	6.92	6.08	6.20	6.39	6.46	6.15	6.42	5.99	6.47
Australia	9.51	12.84	11.04	11.16	10.87	9.84	10.13	9.80	9.03	9.31	n a.
United Kingdom	13.00	9.13	6.70	6.00	6.63	6.60	6.31	7.30	7.81	7.06	7.77
Belgium	9.68	12.78	9.43	7.45	7.66	7.49	7.61	6.38	6.89	8.58	8.65
France	10.87	15.46	12.88	12.46	12.61	12.40	12.54	12.57	12.35	12.37	12.27
Germany	9.13	10.65	6.07	5.00	5.05	5.04	5.07	5.43	5.53	5.59	5.60
Italy	17.50	20.63	19.00	18.00	17.80	17.75	17.88	17.69	17.75	17.79	17.88
Netherlands	8.37	10.67	5.31	5.22	5.06	5.29	5.77	5.68	5.82	5.70	5.84
Austria	11.50	7.50	6.00	4.38	4.50	5.00	5.00	5.50	5.63	5.63	5.75
Finland	12.50	11.30	11.50	15.00	15.00	15.00	15.00	16.67	16.95	16.70	16.70
Ireland	13.31	16.88	14.54	14.36	13.62	13.75	12.50	12.63	11.00	12.25	12.19
Norway	11.00	18.60	11.00	12.75	12.00	12.00	12.70	12.30	13.50	13.00	13.00
Spain	16.74	18.73	20.30	21.01	20.10	21.05	23.33	19.85	20.27	18.56	16.41
Sweden	11.41	13.82	8.63	11.00	11.05	11.00	10.15	11.30	12.00	11.97	11.48
Switzerland	5.75	3.38	1.25	3.88	3.00	3.00	2.00	2.00	1.75	1.63	1.88
Argentina	70.84	84.93	155.32	162.81	170.43	210.04	106.40	173.90	258.90	225.05	213.03
Hong Kong	14.05	10.75	9.13	11.38	12.38	7.00	6.81	13.25	18.00	10.00	n a.
Korea	14.82	14.40	13.84	13.40	13.40	12.70	12.70	12.80	12.80	12.90	11.40
Philippines	15.70	14.70	16.12	13.55	13.05	13.59	15.56	16.54	24.23	18.98	n.a.
Singapore	10.23	3.96	11.45	6.63	5.96	8.08	6.33	6.51	7.02	7.23	7.05
South Africa	5.80	12.34	12.90	9.73	10.91	12.29	13.62	13.43	13.66	14.24	15.63
Eurodollars	19.22	12.29	9.15	8.71	9.07	9.42	9.52	9.42	9.44	9.26	9.52

Treasury bill rates

bond-equivalent yields, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	14.87	11.90	8.15	8.75	9.02	9.50	9.52	9.05	8.92	9.05	9.28
Canada	17.01	14.41	9.80	9.25	9.17	9.24	9.32	9.24	9.24	9.38	9.71
Japan	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	4.91	4.91	4.91
Australia	12.17	13.27	9.39	11.83	11.93	10.59	10.96	10.34	9.38	9.32	n.a.
United Kingdom	13.45	15.31	9.90	9.68	9.29	9.40	9.57	9.21	8.89	9.08	9.08
Belgium	12.75	16.00	12.25	10.00	9.50	9.25	9.25	9.25	9.50	10.85	10.85
Ireland	12.84	17.35	14.70	14.01	12.95	13.09	13.01	12.12	11.96	11.66	11.63
Italy	16.87	21.36	19.11	17.65	17.35	17.35	17.24	17.18	17.08	17.05	n.a.
Netherlands	8.00	9.75	5.63	5.63	4.63	5.38	6.00	5.88	5.63	5.63	5.63
Spain	17.20	15.83	16.96	21.67	21.52	22.53	22.93	22.24	20.74	19.08	17.61
Sweden	12.87	9.20	8.18	7.13	7.12	7.12	7.13	7.13	7.13	7.13	7.13
Korea	16.35	16.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	n.a.
Mexico	27.73	33.22	57.44	63.04	62.36	61.10	57.89	56.17	55.60	54.15	n.a.
New Zealand	11.25	11.25	11.25	12.00	12.00	7.80	7.80	7.80	7.80	7.80	7.80
Philippines	12.74	13.40	14.53	14.49	14.00	14.03	14.48	14.71	15.04	15.56	n.a.
Singapore	6.77	3.03	2.74	2.51	2.61	2.59	2.58	2.65	2.63	2.62	2.59
South Africa	6.31	14.55	14.62	11.81	13.98	14.46	16.19	15.49	15.66	17.47	18.43

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	17.62	12.78	8.81	8.63	9.34	9.57	9.52	9.36	9.26	9.31	9.75
Canada	17.50	15.25	9.95	9.50	9.45	9.40	9.50	9.40	9.40	9.60	9.87
Japan	9.80	6.30	6.80	6.36	6.47	6.59	6.61	6.62	6.30	6.42	6.45
Australia	13.00	16.00	10.65	13.00	13.85	12.10	12.20	11.15	11.00	10.60	n.a.
United Kingdom	14.75	15.69	10.50	10.25	9.75	10.06	9.75	9.56	9.31	9.25	9.31
Belgium	13.10	16.00	12.35	10.00	9.50	9.25	9.25	9.25	9.60	11.00	11.00
France	11.56	15.25	12.75	12.44	12.50	12.13	12.25	12.50	12.19	12.31	12.19
Germany	10.20	10.50	6.20	5.25	5.55	5.50	5.85	5.80	6.15	6.25	6.30
Ireland	13.63	18.50	15.75	14.75	13.63	13.88	13.38	12.69	12.53	12.38	12.19
Italy	17.37	21.00	19.00	17.75	17.50	17.50	17.60	17.50	17.63	17.88	17.88
Netherlands	9.37	11.00	5.25	6.13	5.38	5.69	5.31	6.25	6.13	6.31	6.00
Spain	17.40	15.52	16.55	21.57	20.76	22.48	24.04	22.06	22.19	20.29	18.46
Switzerland	7.50	10.12	3.88	4.75	4.81	4.65	4.44	4.25	4.25	4.25	3.88
Hong Kong	17.69	14.18	10.13	11.50	12.88	9.88	8.94	12.75	16.88	11.50	n.a.
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	14.25	16.05	16.75	16.00	16.75	12.75	10.25	10.00	10.75	12.00	n.a.
Philippines	15.01	17.61	15.91	15.57	15.06	15.96	15.62	16.49	18.26	17.34	n.a.
Singapore	14.12	7.81	8.69	7.56	7.81	7.88	7.38	7.38	7.50	7.63	8.44
South Africa	7.12	15.47	15.26	12.21	14.88	14.94	16.61	16.45	18.94	18.19	19.12

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	16.25	12.62	8.25	8.88	9.18	9.65	9.65	9.20	9.30	9.30	9.70
Canada	17.00	15.20	9.85	9.40	9.35	9.35	9.45	9.35	9.35	9.50	9.82
Japan	9.00	6.50	7.00	6.60	6.67	6.80	6.83	6.88	6.45	6.60	6.50
Australia	12.71	15.65	10.20	12.68	14.84	12.05	11.88	10.56	10.96	10.35	n.a.
United Kingdom	14.87	15.69	10.31	10.28	n.a.	10.06	9.78	9.50	9.25	9.22	9.31
Belgium	12.63	15.50	12.25	10.13	9.25	9.13	9.25	9.50	9.38	11.25	11.00
France	11.25	9.16	8.24	8.24	8.24	8.24	7.30	7.80	7.70	7.70	7.66
Germany	8.00	9.50	6.00	4.85	4.90	4.90	4.90	5.63	5.60	5.80	5.90
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	9.50	11.00	5.38	6.25	5.50	5.63	5.25	6.13	6.06	6.19	6.13
Austria	11.25	9.63	6.25	4.69	5.00	5.31	5.56	6.06	6.31	6.38	6.50
Denmark	10.00	10.00	9.00	6.50	6.50	6.50	6.50	6.50	6.50	6.00	6.00
Finland	5.00	5.00	4.25	4.25	4.25	5.25	5.25	5.25	5.25	5.25	5.25
Ireland	13.63	18.38	15.25	14.50	13.25	13.50	13.13	12.25	12.50	12.25	11.75
Norway	11.00	12.75	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.75
Spain	4.50	11.78	12.53	12.36	12.47	12.28	12.28	12.24	12.08	12.50	n.a.
Sweden	9.75	10.25	9.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Switzerland	7.50	8.75	3.00	3.75	4.25	4.00	3.75	3.75	3.50	3.50	3.50
Argentina	72.00	86.76	103.42	121.66	108.28	127.75	139.92	176.41	176.41	176.41	176.41
Hong Kong	13.00	12.50	7.50	11.00	10.50	8.50	8.50	12.00	10.00	9.00	n.a.
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	26.15	31.81	52.54	60.35	60.03	59.25	57.33	56.38	55.28	54.88	54.70
New Zealand	13.50	15.50	16.50	14.75	16.50	10.00	9.00	9.00	9.50	10.75	n.a.
Philippines	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	13.19	7.50	8.25	7.07	7.01	7.44	6.88	6.81	7.07	7.19	7.44
South Africa	7.87	14.75	15.25	12.35	14.75	14.95	16.62	17.00	17.00	18.43	20.13
Venezuela	16.00	14.75	15.50	15.00	14.00	13.50	13.00	12.50	12.00	12.00	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	21.50	15.75	11.50	10.50	10.50	10.50	11.00	11.00	11.00	11.00	11.00
Canada	18.25	16.50	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Japan	8.16	6.95	6.28	6.26	6.25	6.25	6.24	6.23	6.25	6.10	6.10
Australia	13.50	15.75	15.00	15.00	16.00	14.50	14.50	14.00	13.25	13.25	n.a.
United Kingdom	15.00	14.50	10.00	10.00	9.50	9.50	9.50	9.50	9.00	9.00	9.00
Belgium	15.75	18.00	15.50	14.00	13.25	12.50	12.50	12.50	12.50	13.25	13.75
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Italy	20.50	22.50	20.75	18.75	18.75	18.75	18.75	18.75	18.75	18.75	18.75
Netherlands	10.75	12.00	6.25	6.25	6.25	6.25	6.75	7.00	6.75	6.50	7.00
Austria	12.50	13.50	11.75	9.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Denmark	13.75	15.00	14.00	11.00	10.50	10.50	10.50	10.50	10.50	10.00	10.00
Finland	9.83	9.84	8.95	9.00	9.07	10.07	10.10	10.16	10.14	10.15	n.a.
Ireland	14.50	17.25	16.50	16.25	15.00	15.00	15.00	13.75	13.75	13.75	13.75
Norway	12.50	13.75	14.50	14.25	14.83	13.38	13.13	13.50	13.25	13.75	13.50
Spain	18.50	17.04	19.00	22.40	22.73	23.47	25.19	24.09	23.70	22.87	20.85
Sweden	11.75	13.50	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Switzerland	5.75	8.00	6.00	5.50	5.50	6.00	6.00	6.00	6.00	6.00	6.00
Argentina	77.00	92.60	109.50	170.00	184.00	240.00	152.08	188.58	188.58	188.58	188.58
Hong Kong	17.00	16.00	10.50	11.50	13.50	11.50	11.50	16.00	15.00	13.50	n.a.
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	24.25	31.81	46.12	58.14	58.63	58.73	58.23	57.78	57.14	56.82	56.44
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	11.00	11.00	11.00	11.00	n.a.
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	13.60	11.83	9.33	9.03	8.88	9.00	9.00	8.95	8.93	8.93	8.98
South Africa	9.50	17.00	18.00	14.00	16.00	16.00	18.00	18.00	18.00	19.00	20.00
Venezuela	15.00	15.50	17.00	17.00	17.00	16.50	16.25	16.00	16.00	16.00	16.00

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	11.46	14.33	10.61	10.91	11.20	11.95	11.77	11.65	11.85	11.89	12.00
Canada	12.69	15.27	11.69	11.30	11.56	12.03	12.34	11.76	11.73	11.80	12.02
Japan	9.04	8.32	7.76	7.80	7.78	7.87	7.80	7.58	7.51	7.39	7.19
Australia	13.00	15.00	13.00	14.80	15.10	15.00	14.60	14.40	13.70	13.40	n.a.
United Kingdom	13.05	15.02	10.62	10.10	10.12	10.71	10.65	10.15	10.13	9.93	9.94
Belgium	13.04	13.99	12.66	11.63	11.53	11.42	11.46	11.39	11.32	11.75	11.89
France	14.31	16.44	15.40	14.55	14.52	14.04	13.96	14.03	14.15	14.12	13.96
Germany	9.19	9.71	7.90	8.09	8.11	8.27	8.55	8.43	8.30	8.34	8.38
Italy	16.23	21.39	19.62	18.13	18.22	18.42	18.11	17.79	17.64	17.78	n.a.
Netherlands	10.48	11.28	8.16	9.30	9.00	9.08	9.03	8.80	8.53	8.57	8.58
Austria	9.62	10.37	8.81	8.07	8.14	8.18	8.31	8.32	8.16	8.06	n.a.
Denmark	19.98	20.91	20.14	14.17	15.38	15.56	14.92	14.19	13.95	14.22	12.96
Finland	10.42	10.98	10.64	10.89	10.55	10.58	11.20	10.97	11.19	11.16	n.a.
Ireland	15.63	18.28	14.54	13.51	13.61	13.81	13.60	13.72	13.82	13.72	14.25
Norway	10.44	12.37	13.32	12.75	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Spain	16.15	16.20	15.92	17.31	17.63	17.60	18.31	18.76	19.47	n.a.	n.a.
Sweden	12.61	12.80	13.01	12.14	12.17	11.85	11.24	12.20	12.24	12.44	n.a.
Switzerland	4.63	5.40	4.22	4.51	4.59	4.76	4.73	4.71	4.61	4.62	4.52
New Zealand	12.99	12.55	12.84	14.00	13.59	14.02	10.41	10.13	9.72	n.a.	n.a.
Philippines	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	11.81	13.62	11.31	12.85	14.15	13.27	13.16	12.93	13.33	13.60	13.70
Venezuela	7.39	12.50	15.00	15.75	15.75	15.00	15.00	14.00	14.00	14.00	13.50

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	13.00	15.50	11.75	11.75	11.75	12.75	12.50	12.25	12.63	12.38	12.63
Canada	13.53	16.18	12.74	12.44	12.40	13.03	13.13	12.54	12.57	12.58	12.89
Japan	8.60	7.70	7.55	7.16	7.30	7.34	7.32	7.30	7.29	7.27	7.09
Australia	14.25	16.50	15.00	16.00	16.00	15.75	15.50	15.00	15.00	15.00	n.a.
United Kingdom	14.21	16.55	12.34	12.12	11.89	12.34	12.27	11.89	11.84	11.51	11.57
France	15.23	17.33	15.91	14.85	14.86	14.76	14.48	14.36	14.62	14.30	14.06
Germany	9.50	10.50	8.20	7.40	7.90	8.00	8.10	8.30	8.30	8.30	n.a.
Netherlands	10.71	11.03	7.80	8.91	8.79	8.75	8.79	8.68	8.39	8.53	8.51
Norway	11.24	13.36	14.13	13.50	13.25	13.25	12.25	13.25	13.25	13.25	13.25
Spain	14.82	14.76	17.10	16.77	16.86	18.00	19.59	20.05	20.37	20.03	n.a.
Sweden	11.95	12.94	13.37	12.89	12.79	12.85	12.77	12.99	12.40	12.51	12.21
Switzerland	5.63	6.60	5.92	5.94	6.06	6.10	6.21	6.43	6.27	6.29	5.95
Korea	28.20	27.00	15.90	13.90	13.90	13.90	13.90	14.20	14.10	14.10	14.20
Venezuela	16.15	17.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00

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World Financial Markets

Morgan Guaranty Trust Company of New York

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*U.S. leadership in the world economy**

Three years ago, when President Reagan assumed office, the nation's economic priorities were more domestic than international. For twenty years U.S. economic performance had deteriorated. By 1980 the United States combined high inflation with one of the poorest productivity records among the industrial countries. Moreover, the U.S. economy was heading toward recession, unemployment was mounting, and interest rates were climbing to record levels. Many observers questioned whether dynamism could be restored; this erosion of confidence was evident in the dollar's chronic exchange-market weakness.

The challenge facing the new Administration was to reinvigorate the private sector and restore noninflationary economic growth. It supported the Federal Reserve's policy to fight inflation, and used fiscal policy to promote economic growth, despite deficit concerns. Tax rate reductions and slower growth of government expenditures were to free resources for the private sector. In addition, regulatory policy was to reduce government encroachment on the economy in order to promote efficiency.

In the international area, no major initiatives seemed necessary. By the beginning of 1981, the dollar had stabilized and the U.S. current account was back in surplus. U.S. oil imports were declining as controls on domestic oil prices were phased out. Besides, since the inflationary U.S. policies of the 1970s had aggravated international problems, putting its own economic house in order appeared the best way for the United States to help the rest of the world — a view that was widely shared abroad.

Today, the United States is reaping major benefits from its new economic course. It now records low inflation and the highest rate of economic growth among the industrial countries. The economic upturn touches most major sectors. The long-awaited upturn of business investment has materialized, promising to transform cyclical gains into longer-term productivity improvement. Unemployment has dropped more swiftly than expected, from a peak rate of 10.8% a year ago to 8.2% today. For 1984, economic growth of 5%, 4½% inflation, and a 7½% unemployment rate are in view. Thus, some of the principal

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*Based on remarks presented by Rimmer de Vries, Senior Vice President, Morgan Guaranty Trust Company, on January 11, 1984, to the Economic Symposium arranged by the Deposit Guaranty National Bank, Jackson, Mississippi.

Chart 1

The dollar and trade

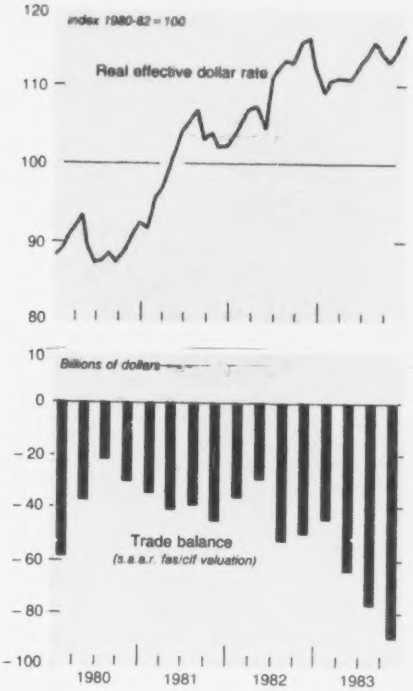
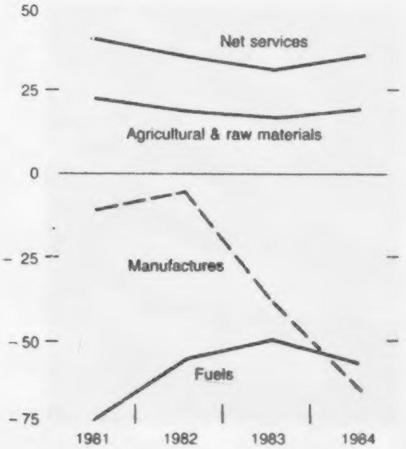


Chart 2

U.S. trade balances by sector

exports fas/imports cif basis in billions of dollars



domestic economic objectives of the Administration are now being fulfilled.

With these accomplishments at home, the United States must now refocus on international issues. We must be more sensitive to the impact of U.S. policies on other countries, and more cognizant of how economic and political problems abroad affect our own future.

Three issues demand priority attention. The first concerns the soaring U.S. trade deficit and the worldwide impact of exceptional dollar strength (see Chart 1). Some segments of the U.S. economy are more and more vulnerable to foreign competition as the dollar rides higher. Protectionist pressures abound. The Administration has felt obliged to compromise free-trade instincts by concessions to domestic interest groups thus harming world trade relations. Moreover, if unchecked, the trade deficit implies growing dependence on foreign capital inflows. If these were to halt or reverse, the dollar could decline precipitously, rekindling inflation at home.

A second major issue is the economic malaise in Europe, dubbed by some as "Eurosclerosis." To be sure, the super strength of the dollar is as much a vote of confidence in the United States as a lack of confidence in Europe. Europe's economic growth potential has sagged to a fraction of what it once was. Europe lags far behind in the high-technology race. Unemployment in the European Community exceeds 12 million, with meager expectations for improvement. The inability of Europe to approach U.S. vigor is disquieting.

The third challenge relates to developing countries, particularly those in Latin America that are afflicted by the most severe economic and financial troubles since the 1930s. The solution to their debt problems must enable attainment of their long-run economic growth potential and restore their creditworthiness.

The three issues are interrelated, for their constructive resolution depends crucially on getting world interest rates down and reversing the global slide into protectionism. Bringing down U.S. interest rates will encourage more expansionary policies in Europe and Japan, lessen the debt-servicing burden on LDCs, and ease tensions in the international financial system. Lower interest rates also could blunt U.S. protectionist impulses by moderating undue dollar strength.

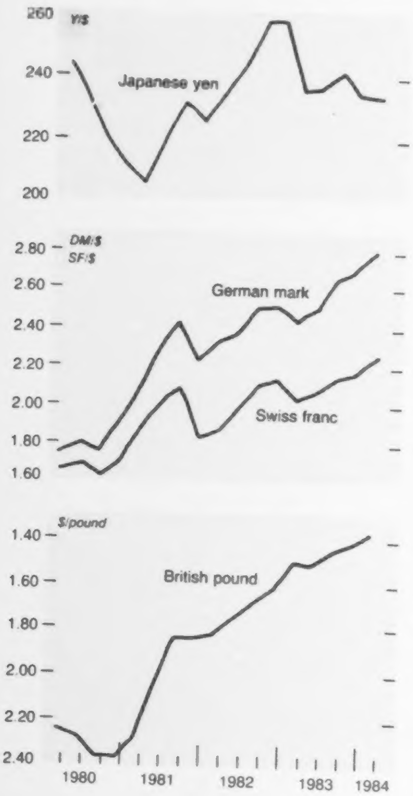
The U.S. trade deficit and dollar strength

Deterioration of the U.S. trade and current accounts has occurred rapidly and it poses real dangers. As recently as 1981 this country had a $5 billion surplus on its current account. A roughly $40 billion deficit on merchandise trade was outweighed by large service earnings, principally income from foreign investment. But in the three months ended last December the trade deficit topped $90 billion at an annual rate. It will likely surpass $100 billion this year, resulting in a current account deficit of $60 billion or more.

Few sectors of goods and services trade have escaped the weakening trend. Deterioration is most conspicuous in manufactures (see Chart 2). They earned an $11 billion surplus in 1981, but could be in the red by $60 billion in 1984. The 1981 U.S. surplus of $25 billion in agricultural and raw materials has shrunk to about $17 billion. World recession and dollar strength have cut into direct investment earnings, causing the overall invisibles surplus to dip $6 billion. U.S. petroleum imports have risen from their low a year ago.

Chart 3

Bilateral exchange rates



One caution should be entered to this litany of trade woes: the statistics are not fully reliable. For the world at large, measured current account deficits exceed surpluses by $100 billion, a discrepancy that has widened enormously since the second oil shock. Much of the reporting problem involves investment income, transportation, and all kinds of contract and professional fees. The United States has a leading position in world services trade, so it is likely that sizable earnings escape the official accounts. The current account deficit may therefore be overstated $20 billion or more. Still, whatever the level, there is no doubt that the current account trend is sharply negative.

The trade deficit is frequently attributed to the runaway strength of the dollar. It should be emphasized that the dollar's performance has been quite uneven (see Chart 3). The dollar currently stands 15% higher against the Japanese yen and 41% higher against the German mark than at the time the Reagan Administration took office. Since its peak in 1982 the dollar has weakened 14% against the yen. But it has risen 2% against the Canadian currency during the past twelve months, and has climbed an average 21% against European currencies. Plainly, dollar strength is not uniform, but partly mirrors the special problems afflicting some European nations.

Adjusted for inflation, the dollar has risen 30% against the yen, and 27% against other currencies since the beginning of 1981. This should not be interpreted as the degree of dollar overvaluation at present. During the 1970s the dollar was unnaturally depressed by the policy errors and poor performance of the period. It is more relevant to observe that the dollar currently stands in real terms about 17% above its average in the first three years of this decade.

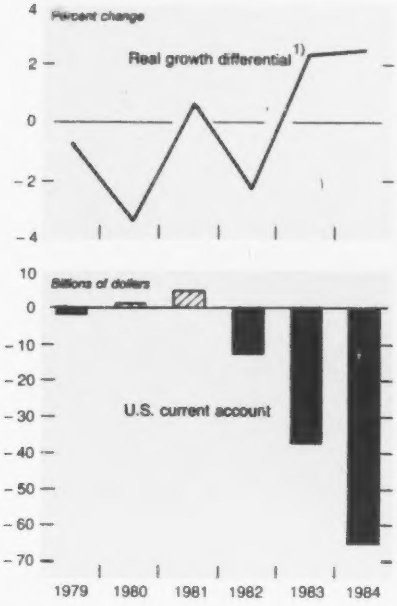
Dollar strength has been one factor swelling the U.S. trade deficit. But economists are by no means unanimous that appreciation is the preponderant cause. It probably is the prime explanation for the losses U.S. exporters have suffered in world market share since 1981, but such nonprice factors as ill-judged trade embargoes also have taken a toll on U.S. exports.

The trade deficit owes much to income factors. U.S. expansion is leading recovery of world economic activity, opening up a sizable real growth differential between the United States and its trade partners (see Chart 4). In 1983 U.S. real GNP growth of 3.3% was about matched in Japan and Canada, but far surpassed the 0.7% growth in Europe. In much of the developing world growth was negative. The growth disparities are closely mirrored in the trade statistics. While the U.S. deficits with Japan and Canada did not widen greatly in 1983, the normal U.S. surplus with Western Europe practically disappeared. Whereas U.S. exports to Japan and Canada in recent months have equaled or bettered 1981 levels, the weakness of European markets holds U.S. shipments to the area of 15% or so below their level three years ago. On present thinking, the growth gap will narrow later in 1984 but may persist for years to come unless European recovery proves unexpectedly vigorous or the U.S. economy seriously weakens.

U.S. trade also has been gravely undermined by the Latin American and East European debt crises. Financial problems have obliged most Latin American countries to slash their imports far below the levels of 1981 when credit still was plentiful. Along with European and Japanese exporters, the United States has seen its sales to Latin America tumble 40% and more. The United

Chart 4

Real growth differential and the U.S. current account



1) Percent change in ratio of U.S. real GNP to the export-weighted average of trading partners' real GNP

States has sustained the major setback to its overall export performance, to the tune of $20 billion per annum.

In sum, the U.S. trade deficit has three principal sources: dollar strength; the "locomotive" role of the U.S. economy in world recovery; and the credit problems that have sapped Latin America's ability to import. In time, the growth differentials among OECD countries should lessen and third world financial pressures ease. Both developments will benefit U.S. trade, but the impact of dollar strength and impaired price competitiveness, if continued, could offset that benefit.

Should we be concerned about the trade deficit and, if so, what should be done? The deficit has both positive and negative features. At home the trade deficit and dollar strength are evidence of vigorous foreign competition in the domestic market, contributing in no small way to the success in curbing U.S. inflation. Quality imports at attractive prices are a real boon for the U.S. consumer and keep up the pressure on domestic industries to raise productivity and restrain cost increases as the cyclical expansion continues. Moreover, import competition is one channel through which structurally weak industries are pared back, an essential process in the natural long-term evolution of the U.S. economy. Whereas the 1970s' climate of a weak dollar and relaxed competitiveness tended to postpone needed structural change, this decade's strong currency accelerates transition.

For the rest of the world, the U.S. trade deficit provides a much-needed tonic. The shift in U.S. net exports since 1981 adds ½% to aggregate demand for rest-of-world output. This external stimulus supports a major fraction of the modest overall growth that Europe is experiencing, and is especially welcome to governments that are reluctant to provide domestic stimulus. Similarly, growing earnings from exports to the United States help shift developing countries from overdependence on foreign borrowing to a more healthy export-based approach to development.

Nonetheless, the trade deficit and inordinate dollar strength cause worry. The decline in net exports since 1981 is close to 2% of U.S. GNP. Some say continued decline threatens expansion of U.S. output and employment. The allegation is misleading, because the trade deficit is partly a result of fast economic growth, not an obstacle to it. The composition of employment, however, is affected. The decline in U.S. exports has cost about one million jobs in the export sector. Similarly, rising imports to some degree displace jobs from import-competing firms, although to what extent is difficult to judge in a period of general expansion. U.S. job creation is occurring disproportionately in service and other industries not directly exposed to foreign competition, while manufacturing takes the heat.

Up to a point this reallocation of employment would have to occur in the years ahead, but in the short term there are adjustment problems. When too many industries complain of severe foreign competition, the political process may not respond in a damage-minimizing way. Industries with political clout win protection, yet are not necessarily those that have the best fundamental prospects. Consumers are obliged to pay enormous costs for the protection of the favored few. Firms that fail to gain protection are penalized by the added currency appreciation that import barriers inspire: for example, the yen would be distinctly stronger today were it not for the restraints on Japanese exports demanded or imposed by the United States and Europe.

Protection is rarely a constructive way to meet foreign competition. A new strategy is needed to lessen the social costs and maximize the economic benefits of adjustment to competition in the world marketplace. To this end, there is a developing consensus in the President's Commission on Industrial Competitiveness that the United States must greatly improve the educational system and opportunities for its citizens, encourage investment in research and development, strengthen the access of new business to low-cost capital, and lessen administrative impediments to exports.

Such efforts to promote flexibility and productivity in the U.S. economy are obviously desirable, but they should not be relied upon to undo the damage wrought by an overly strong dollar. And the dollar is too strong for the long-term health of the U.S. economy — not by as much as the 25%-30% so vocally asserted by some, but too strong by maybe 10%-15%.

While large current account deficits are constructive at the present time, their perpetuation would be debilitating. There are signs of structural deterioration in the composition of the deficit. Global farm surpluses and trade barriers dampen the outlook for U.S. agricultural exports. Although improved energy policies have won the United States considerable independence of foreign oil, petroleum imports may rise $6 billion, or 12%, this year — for cyclical reasons and perhaps too on a sustained basis as domestic production shrinks. Also, investment earnings are undermined as successive current account deficits gradually reverse the United States' remaining net creditor position vis-à-vis foreign countries. Since these areas of strength in the U.S. current account are in some question, it is important that the dollar not stay so high that domestic industry loses all hope of rebuilding competitiveness.

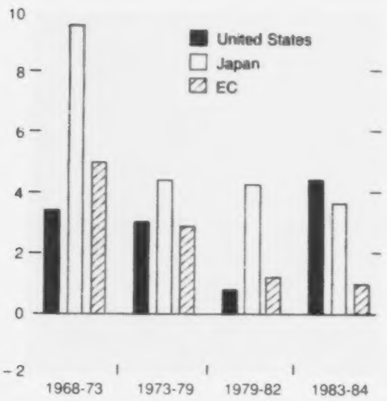
Thus, the challenge will be to achieve an orderly moderation of exchange market preferences for the dollar. The bidding-up of the dollar in exchange markets has numerous causes. Portfolio holders' asset preferences, which are the main determinants of currency values, are rarely based on any single, long-term consideration but rather on ever-shifting hopes, fears, and assumptions. The dollar has been driven up in the 1980s by high returns on dollar investments, by confidence in the underlying prospects for the U.S. economy, and by safe-haven motives that reflect lack of confidence in prospects elsewhere. Market assessments could shift abruptly if confidence in U.S. political leadership and economic management were to sag. In that event the dollar could turn sharply lower, and what is widely held to be serious overshooting today could become disruptive undershooting tomorrow.

There still are some who imagine that exchange rates can be induced to accord with policymakers' preferences through market intervention, the introduction of "target zones," and official pronouncements on rate objectives. Experience argues, however, that such approaches have little lasting effect. Nor does manipulation of currencies through exchange controls hold greater promise: markets today are too far developed to be readily stymied. Only basic policy changes achieve concrete and durable results. For twenty years such cosmetic gestures as interest equalization taxes, voluntary credit restraints, Roosa bonds, and the proposal for an IMF reserve substitution account proved ineffectual in coping with dollar malaise. Not until the new policy priorities of the 1980s did dollar

Chart 5

Real GDP growth

average annual growth in percent



strength return.

The best contribution the United States can make to curb excessive dollar strength would be through lower interest rates. These may emerge as the pace of U.S. economic expansion moderates. While one cannot be sure how far the dollar would then come down, it seems unlikely that the dollar would weaken very much if interest rates climb anew. Whether the Federal Reserve's money supply objectives are unduly restrictive can be debated. But it is widely believed that the Fed has only modest leeway to ease policy in the face of high budget deficits. Moreover, the budget deficit is itself a principal cause of the trade deficit: the aggregate domestic savings deficiency of the U.S. public and private sectors has to be financed by net capital inflows from abroad, which imply a parallel deficit on trade in goods and services.

Renewed confidence and stronger growth abroad are equally vital if the dollar is to come down. Lower U.S. interest rates would ease the financial strains on developing countries, would encourage European governments to ease their own policies, and would lessen their widespread defeatism about unemployment. As yet, the modest and uneven recovery of output in Europe has done little to bolster confidence. Perhaps the evidence will grow more persuasive as 1984 unfolds. For now, however, it is understandable that currency markets remain skeptical.

European problems

The sense of European malaise highlighted in the weakness of European currencies can be traced to three interrelated problems. First is Europe's fragile economic recovery and limited prospects for medium-term growth. Second is high and persistent unemployment. Finally, there is political drift in Europe concerning the future of both the Common Market and the North Atlantic alliance.

European recovery has been weak by comparison not only with the rapid U.S. recovery but also with Europe's own previous experience (see Chart 5). Industrial production in the major four European economies remains below its end-1979 peak. Real GDP in the major four rose rather less than 1% in 1983 — 1.2% in Germany, 2.5% in the United Kingdom, but not at all in France and Italy.

Growth should remain modest this year. Real GDP should advance about 2.5% in Germany and Britain. France and Italy will head out of recession by year-end but show little expansion for the year as a whole. For 1985 and 1986, Europe's real growth is expected to average 2% — very weak for the expansionary phase of an economic recovery. Following the first oil shock recession, growth was 4.7% in 1976 and 2.5% in 1977. Previously Europe's growth had averaged 5% annually from 1968 through 1973.

Europe's economic stagnation since 1979, together with rapid labor force growth, has doubled the unemployment rate. For the Common Market as a whole this is now about 10.5% of the labor force. In some of the smaller countries, such as the Netherlands and Belgium, it is over 15%. Europe's unemployment is unlikely to be reduced significantly in the next few years since projected output growth barely exceeds expected increases in productivity. Even in Britain, where GDP recovery began in 1981 and to date has been the strongest of the major countries, unemployment still is not clearly declining — although it may have leveled off at just over 12%. Germany's unemployment rate was 9.5% this past December (not

Chart 6

Investment shares in GDP

gross fixed capital formation as a % of GDP

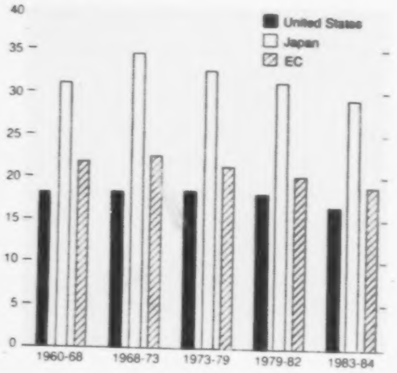
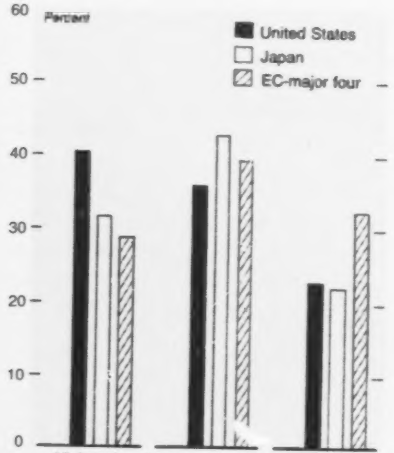


Chart 7

Technological intensity of exports

manufactures exports by technological class



Source: General Confederation of Italian Industry

seasonally adjusted), a half point higher than a year earlier despite the growth in domestic output.

Political problems also have contributed to Europe's loss of confidence. There is latent fear of neutralism in some countries. The drive for European integration has stalled, and no movement to strengthen European institutions can be seen. Indeed, the Common Market has become a vehicle for internal and external protectionism.

The failure of the European Community's December summit to settle budget issues, to reform the Common Agricultural Policy, or to set a timetable for Spanish and Portuguese entry dramatizes the problems. Economic growth once provided relatively painless and constructive solutions to structural problems, but now the negativism brought on by rising joblessness drives countries to push narrow national interests and protectionism. The great bulk of the Community's efforts and resources are being squandered to shore up agriculture, steel, and other politically sensitive sectors. Little is being invested to make these sectors and the labor force adapt to new competitive realities.

The decline in spending for investment and its diminishing productivity are a fundamental reason behind Europe's discouraging outlook. As a percentage of GDP, investment has declined since the oil-price increase of 1973 to a level well below that typical of the 1960s (see Chart 6). The decline is particularly sharp in Germany. By contrast, the United States has experienced virtually no decline, while the falloff in Japan since 1973 still leaves its investment share the greatest among the major industrial countries.

Furthermore, Europe has not faced up to the challenge of the technological revolution in electronics and biogenetic engineering. Both Japan and the United States have established a strong presence in these high-technology "sunrise" sectors (see Chart 7). In the early days of the Common Market, attracted by its vast market potential, U.S. private direct investment in Europe increased sharply and brought great technological benefits. Now U.S. investment interest has turned elsewhere, while European capital increasingly flows abroad.

Private investment in Europe has been discouraged by the growth of the public sector. The quest for social equality and pervasive welfare states have led to rapid increases in government spending. For the Common Market as a whole, total government spending rose from 33% of GDP in 1961 to 39% in 1971, then exploded to 50% in 1981. The spending was financed partly through higher taxes, which deter private initiative, and otherwise by public-sector deficits that absorb private savings and help raise interest rates.

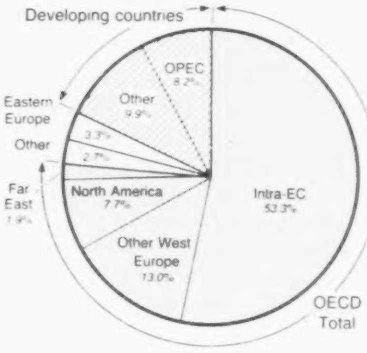
Private investment incentives have been impaired by the decline in European business profitability and, in many countries, by various regulatory and legislative measures to curtail the role of private enterprise. High real wages and crippling nonwage costs have aggravated the decline in profitability, helping also to explain the rise in European unemployment and absence of employment growth.

Stagnation in export markets, both within Europe and outside, contributes to Europe's weak short-term growth prospects. European exports to OPEC and debt-burdened developing countries have declined. While exports to the United States and Canada have increased in response to European currency depreciation and fast North American recovery, alone they are not enough to give European economies a ma-

Chart 8

European Community export trade shares

data for Jan.-June 1983, at annual rate



jor boost. In terms of aggregate demand, the weakness of intra-EC trade is a much more important factor, since more than half of all EC exports go to other EC countries (see Chart 8). In the first half of 1983, intra-EC exports were down 3.6% in dollar terms from a year earlier, implying at best a very modest increase in volume terms.

What can Europe do to improve its growth prospects? Three main recommendations can be advanced. First, competition in European markets must be increased, both between European firms and with non-European producers. Narrow national interests, procurement policies, and capital market rigidities handicap high technology in Europe, and the EC does not yet offer a true common market in services and communications. Increased integration of European national markets in these areas will help boost growth and productivity. After all, U.S. advances in technology would not have been possible if the fifty states had prescribed incompatible standards or insisted on home procurement.

Contrary to the assumption of many European policymakers, tariff barriers and protectionism — whether toward the outside world or among member states of the Community — are unlikely to promote technologically advanced industries that can compete in world markets.

The second imperative is to encourage private enterprise, boost profitability, and raise private investment. Lower real wages and other nonwage costs are crucial to these ends. Moreover, the higher growth that increased business investment and lower real wages would promote is more likely to succeed in reducing unemployment than the current European strategies of lowering the retirement age, reducing work weeks, and increasing job sharing.

The third recommendation is for "supply-side" tax cuts. By releasing resources to the private sector, current policies emphasizing deficit reduction and public-spending curbs will eventually contribute to higher growth, even though they restrain growth in the near-term. The drive to curb public spending must be complemented by supply-side tax cuts that boost profitability and encourage investment. Reduction of budget deficits through tax increases, rather than by spending cuts, can be counterproductive for investment if capacity utilization remains low — as the British case makes clear.

The priorities identified here are difficult and painful for many Europeans to contemplate, let alone implement. It is encouraging, however, that the logic is increasingly recognized. Principally in the United Kingdom — but to a growing extent also in Germany, the Low Countries, and Denmark — there now is real commitment to cutting back government and increasing profitability in private enterprise. Even in France, the importance of raising investment is better understood. Progress is slow everywhere. For example, Britain's much heralded "privatization" moves have been marginal to date and there is continuing ambivalence about how far competition is to be encouraged in practice. Thus, Europe has far to go in internal reforms. In the long run, however, they will be far more fruitful than diversionary criticism of the United States. The economic health of Europe is no mere function of U.S. macroeconomic policies.

LDC debts

By now, more than 30 developing and Eastern-bloc countries are in arrears or have sought renegotiation of their external debts. Others are grappling with reduced international lending, cutbacks in short-term credits, and stiffer borrowing terms. The debt crisis is particularly acute in Latin America, which owes about 60% of all LDC debt extended by commercial banks.

When Mexico and Argentina ran into difficulties in mid-1982, the banking community initially approached their problems as a short-term liquidity matter. As the crisis spread to other countries, more basic worries surfaced. Many blamed external factors, such as the world recession and higher interest rates. More recently, the longer-term, fundamental issues in LDC finance and development strategy have come to the fore.

The crisis was precipitated by the abrupt realization that external borrowing by several major developing countries far exceeded their ability to service debts out of actual or prospective exports. A proper relationship must evidently be reestablished between external debt and debt-servicing capacity. For several of the key borrowing countries, restoring creditworthiness and regular access to credit markets may take the remainder of this decade.

Tackling the LDC debt problem requires a dispassionate, realistic assessment of its underlying causes. External events clearly played a major role — particularly the industrial world's radical shift after the second oil shock from inflation to disinflation. High U.S. interest rates and dollar strength drove up debt-servicing costs, while industrial-country recession and sharp reductions in commodity prices slowed LDC export earnings. For 21 principal LDC borrowers, about two-thirds of external debt is at floating interest rates and nearly 80% is dollar-denominated. Their interest payments more than doubled after 1979, from 10% of exports to over 20% in 1982. They climbed to 50% for Argentina and nearly 45% for Brazil. Over the same period, debt/export ratios for the 21 LDCs rose from 130% to 200%. For the major Latin American countries, other than Venezuela and Colombia, debt/export ratios climbed far above the 200% level that has often preceded debt-servicing problems — for Argentina and Brazil, even beyond 350%.

Domestic policies in the LDCs also played a critical role. Some countries — especially those in East Asia — successfully coped with external shocks because their policies promoted timely internal and external adjustment, as is manifest in relatively low inflation rates and small current account deficits.

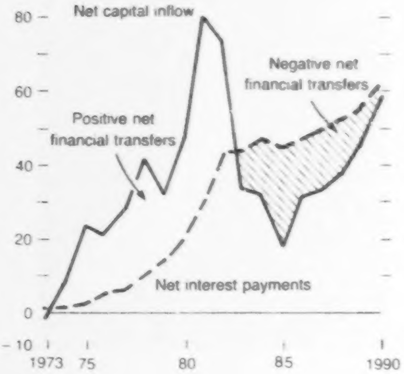
Others responded more slowly. Import-substitution development strategies in Latin America hindered the export sector, leaving the share of exports in GNP far below that of other LDCs. Overblown government and rapid growth of state enterprises diverted resources from the private sector and exports. Overvalued exchange rates, artificially low interest rates, and political uncertainties triggered massive capital flight from the region — over $60 billion from 1979 through 1982. From Venezuela, unrecorded capital outflows accounted for all of the country's external debt buildup; for Argentina and Mexico, they were as large as cumulative current account deficits.

A third factor in the debt problem was the relative ease with which LDCs were able to obtain financing from commercial banks. From the mid-1970s until 1982, bank lending to the LDCs expanded at an average annual rate of over 20%. In 1980-1981 bank claims on Mexico and Argentina increased 40% per annum. Much took the form of short-term credits far in excess of normal trade financing. The willingness of banks to continue lending rapidly,

Chart 9

Net financial transfers for 21 major LDCs

in billions of dollars



without recognizing increasingly deteriorating circumstances and warning flashes, is a clear example of overshooting in financial markets — compounded by the failure of governments, international institutions, and commercial banks to assess properly LDC debt-servicing capacity.

Coping with the international debt crisis has required extraordinary efforts. On the whole, the track record over the past year has been rather good. Among the most positive developments have been the more favorable external environment bred by the declines in U.S. interest rates since mid-1982, the subsequent U.S. economic recovery, and a partial rebound of LDC commodity prices.

LDC external adjustment also has exceeded expectations. The seven major Latin American borrowers ran up a combined trade surplus of about $30 billion in 1983, compared with a virtually balanced trade account in the six years before 1982. The improvement, however, has come about largely through cuts in merchandise imports — exclusively so in Argentina and Peru. In 1983, the seven countries held their imports 42% below 1981 levels. Most are benefiting from both IMF credit and Fund advice on domestic reforms that should lay the basis for renewed economic growth.

The banks have been impressed by the IMF's expanded involvement and, for their part, have rescheduled maturing obligations and provided new money. To all LDCs the increase in bank exposure during 1983 was $15-$20 billion, somewhat less than hoped for. A welcome development in the latest Mexican renegotiation was the willingness of banks to reduce spreads and fees to take account of the country's remarkable adjustment achievements. Moreover, the resilience of the international financial system is being buttressed by the steps banks are taking to strengthen their capitalization.

Thus, a strategy has evolved that is on course, that enjoys widespread commitment, and that entails an acceptable sharing of burdens among the interested parties. Nevertheless, there are potholes in the road ahead.

One concerns the continued need for the LDCs to sustain large trade surpluses in order to service their external debt. Throughout most of the post-World War II period, the LDCs were able to accelerate their development by supplementing domestic inputs with foreign resources. Net capital inflows exceeded their interest payments on external debt by almost 2½% of GNP in the 1973-1981 period (see Chart 9). For the LDCs as a group, external financing underwrote about one percentage point of their 5% annual average growth.

Currently, by contrast, many LDCs — particularly those in Latin America — face the opposite situation. Interest payments on their external debt exceed net capital inflows, so that they are making net financial transfers to creditors. Such transfers slow the rate of LDC debt accumulation. However, in the absence of ready opportunities to expand exports, the radical contraction of imports required in Latin America has been disruptive of economic growth and long-term development. For some countries, reductions in living standards rival those of the 1930s and, if prolonged, pose significant political and social risks.

The debt crisis has spawned many suggestions to improve LDC financing techniques — for example, by increased use of currencies other than the dollar for LDC borrowing.* Financing innovations, however, offer no panacea.

Over the long run, the only viable solution for Latin America lies in

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*Compared with borrowing solely in dollars, diversified currency borrowing may lower interest costs and hedge exchange risks. If the non-oil LDCs had diversified their new and maturing bank debt between 1979 and 1982 they might have saved over $30 billion, according to a recent New York Federal Reserve Bank study. During that time yen, mark, and Swiss franc interest rates were well below dollar rates and most currencies depreciated sharply in dollar terms. Looking ahead, there are obvious cash flow benefits to the servicing of debts contracted in low interest rate currencies. Still, the savings from diversification are marginal unless the dollar appreciates substantially further. By contrast, if the dollar weakens, as is implicit in forward exchange rate relationships, the potential savings in debt-service costs are quickly eroded. In fact, diversified borrowing would prove a costly alternative for LDCs in the event that the dollar falls sharply.

Table 1

LDC borrowing

billions of dollars
1981 estimated; 1984-1990 projected

	1981	1984	1986	1990
Major 21 borrowers				
Gross borrowing	215.9	195.1	241.2	354.3
Amortization	38.2	31.1	49.5	88.7
*Short-term rollover**	97.9	123.2	142.4	183.7
*New money***	79.7	40.8	49.3	81.9
Argentina				
Gross borrowing	22.3	13.0	15.9	16.1
Amortization	3.5	2.7	5.3	6.5
*Short-term rollover**	10.3	8.3	8.7	9.6
*New money***	8.5	2.5	1.9	0
Brazil				
Gross borrowing	30.7	20.3	28.8	37.7
Amortization	7.5	1.6	11.6	17.8
*Short-term rollover**	12.9	10.5	11.8	15.9
*New money***	10.3	8.2	5.4	4.0
Mexico				
Gross borrowing	45.5	30.0	34.7	53.6
Amortization	6.4	3.5	11.5	28.6
*Short-term rollover**	12.7	22.8	19.9	18.6
*New money***	26.4	3.7	3.3	6.4

*Rollover of debt carrying under one-year original maturity.

**Increase in gross debt outstanding to all creditors.

expanding exports so that debt-servicing capabilities are enhanced, flight capital returns, and economic growth is restored. This will require a reordering of priorities away from import substitution toward more active export orientation. It also implies reassessment of the development role of the state in order that resources be freed for the private sector and exports. Clearly, if such a strategy is to make sense, the United States and other industrial countries must provide reasonable assurances of market access for their goods and services.

Even if policymakers in Latin America can be convinced of its merits, an export-led strategy will still take considerable time to bear fruit. In the meantime, the transfer burden on key Latin American borrowers can usefully be eased through lower interest payments. This could take a variety of forms — ideally through lower U.S. interest rates, but also through lower bank fees and spreads for countries that successfully implement IMF programs, or even by interest capitalization.

The benefits of stronger export orientation and reduced interest costs can be remarkable, even for the most debt-burdened of LDCs. Brazil now labors under a crushing 350% debt/export ratio and has an export/GNP ratio around 10%. Suppose that Brazil, outdoing present expectations, implements policies that by the end of the decade achieve an additional 2-percentage-point increase in the export share of its GNP. At the same time, suppose the country enjoys a decrease of 200 basis points in the effective interest rate on its foreign debt and attracts an extra $1 billion each year in foreign direct investment. Rough calculations show that Brazil could then boost its overall rate of economic growth by an additional 2% per annum over the remainder of the decade. More, Brazil's debt-service burden, as measured by its net financial transfers over the period, would be lessened and the country's debt/export ratio could be back below the critical 200% level before 1990, considerably earlier than many now expect.

Thus, far from being in contradiction, the restoration of economic growth and creditworthiness can go hand in hand. Still, renewed creditworthiness may not bring a speedy end to the present phase of involuntary lending by creditors to certain LDCs. Even after debt/export ratios have been worked down to more normal levels and the borrowers' needs for *new* money are substantially diminished, *gross* financing needs will remain daunting.

Table 1 estimates that in 1984 the 21 principal LDC borrowers will be seeking new credit on the order of $41 billion. This would be barely half the pace of three years ago, giving testimony to their adjustment achievement. But their $150 billion need for refinancing, to roll over short-term credits and cover long-term amortization, has not materially lessened through the restructuring efforts to date. Little has been done to lengthen short-term maturities. Amortization payments by the 21 will double over the next two years, partly because grace periods on some rescheduled debts will be expiring. Mexico faces especially heavy amortization in the second half of the decade.

The sheer volume of gross financing needs is a major obstacle to the resumption of voluntary lending in the years ahead, at least to the principal Latin American debtors. There will be little practical alternative to virtually continuous renegotiations among lenders and borrowers in order to stretch out maturities on a realistic basis. If the disproportionate weight of refinancing is to be lessened, there will have to be particular emphasis on the funding of excessive short-term credits. Keeping such negotiations on track will demand steadfast commitment by all the parties, spearheaded by the continuing active involvement and leadership of the IMF and with the growing participation of the World Bank.

U.S. initiatives

In the immediate aftermath of World War II, the United States, in contrast to its prewar isolation, displayed historic leadership by launching and supporting reconstruction in Japan and Europe and by promoting third-world development. Such initiatives as the Marshall Plan, GATT, and the Bretton Woods Institutions will long be remembered as crucial in reviving confidence abroad and in providing mechanisms for trade and payments liberalization. They laid the foundation for twenty-five years of remarkable economic progress in the free world.

That postwar posture on the part of the United States was not, of course, purely altruistic. The nation understood the political and strategic necessity of fostering economic advance abroad if prosperity were to be assured at home.

There are parallels today. The United States — joined, to some extent, by Japan — is enjoying impressive economic expansion and a super-strong currency; it is preeminent in world technology. Europe, by contrast, seems resigned to feeble economic growth and massive unemployment; it is falling farther behind in technology; and lacks firm direction as the extraordinary weakness of European currencies attests.

The current drift in the Common Market, indeed its retrogression, should be a matter of grave concern. The arguments that led the United States to support and nurture the EC still stand. Similarly, at a time when Latin America is moving toward more democratic institutions, the United States, in its own self-interest, should support such liberalization by promoting economic growth and development in the region. Thus it is once again time for the United States to display global vision, reassert its leadership, and sponsor initiatives that build confidence worldwide.

The most urgent need is for the United States to take steps to reduce interest rates, or at least alleviate the risk of a rate upturn. The world cannot afford higher interest rates. Reduction would benefit everyone.

Although fiscal stimulus was instrumental in triggering the U.S. economic turnaround, it is vital as recovery becomes well established that the private sector, and investment in particular, becomes the main engine of domestic growth. This can best be assured by reining in government spending and lowering its demands on credit markets. Political realities appear to dictat that decisive action is very difficult in an election year. Still, the Administration and the Congress should not relax efforts to secure at least a down payment against the deficit. The appointment of a bipartisan Presidential Commission also could be a useful step toward consensus on budget policy, provided this leads to prompt and tough action following the election.

Spending cuts should remain the major emphasis. Any tax increases should not detract from the valuable supply-side accomplishments of the original Reagan program, and should therefore bear more on consumption than on savings and investment. Increased energy taxes are a prime area for action. They would narrow the trade gap, and by helping keep world oil prices down, could lower inflationary expectations and foster a reduction of interest rates.

In addition to lower interest rates, a new start has to be made to reverse the protectionist tide. In recent years, the United States, Europe, and Latin America have taken innumerable protectionist decisions, large and small, that frustrate change and poison political relations.

It is time for a new initiative — perhaps a Reagan Round — to free up world trade in goods and services. For the first time, the LDCs must be involved in a major way. Such initiative is unlikely to come from those that lack a strong vision of their future. But the United States, enjoying vigorous economic expansion at home, can well afford a positive approach.

The most pressing issues to be resolved, with both Europe and Japan, concern agricultural protection and barriers to trade in services. In these fields, as also is increasingly the case in the manufactures area, the obstacles to trade are not so much the tariffs that have dominated previous trade liberalization endeavors, but the prevalence of subsidies and quantitative restrictions. As for developing countries, the objective must be adequate access to industrial-country markets in order that export-oriented development strategies can work. This will require industrial countries to recognize the LDCs' growing comparative advantage in light manufactures and some basic industrial products. The industrial countries will need to accept a growing specialization in high technology, communication, and service activities — areas in which trade negotiators have made little progress so far. For their part, the LDCs not only would be expected to open their markets to industrial products but also to foreign technology. The latter calls for an explicit code of conduct governing private direct investment.

The overriding aim of the trade initiative should be to focus official efforts on trade creation that corresponds to the evolving pattern of national competitive advantages. Through this course the world's economic pie will grow larger and political tensions over its division should be muted.

Finally, it is time for the United States to reassert leadership in the field of development economics and finance. The industrial countries can no longer neglect the need for adequate long-term capital flows to developing countries, which commercial banks are ill-equipped to provide. This will entail continued support for official institutions such as the IMF and World Bank, and also reforms to enhance their overall effectiveness. The IMF in the past two years has assumed a much more active role, not only in providing financial support and policy advice to developing countries, but also in forging a close working relation with commercial banks to underwrite adjustment programs.

However, the World Bank — by charter, the premier development finance institution — has been underutilized. It should be working more actively with commercial banks in cofinancing and in what may be dubbed "reverse" cofinancing — in other words, participation in the restructuring of project loans initially financed by private credits. The World Bank, with its technical expertise and long experience in development finance, needs to match more closely the Fund's new enterprise in marshaling finance from the whole range of potential lenders — official and private — with less dogged insistence on traditional, but outdated funding standards. The Bank must realize that its long-term mission cannot shield it from the shorter-range imperative to assist developing countries achieve their growth potential and resolve their debt problems.

In sum, in this interdependent world there is no sure prosperity for any nation while others falter or fall back. Right now the United States has reasonably bright prospects for continued noninflationary growth. Abroad, however, the outlook is much less promising. Having made an impressive start in setting its own house in order, the United States is now well placed to assert its natural leadership position in the international economy. By its example and through the international institutions where its voice is heard, the United States should argue the benefits for the free world of reining back overextended government. In industrial and developing countries alike, the private sector needs room for initiative and dynamism. That dynamism and initiative can hardly flower while protectionism closes off markets and high interest rates hinder investment. The time is overdue for renewed U.S. commitment and initiative, both for global trade liberalization and worldwide lowering of interest rates.

Statistical appendix

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average 100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1983																
January	109.7	100.2	106.7	97.3	91.8	106.9	92.8	89.4	103.6	91.1	106.3	82.6	111.3	98.9	97.4	81.0
February	111.0	100.5	105.9	96.8	91.9	107.0	92.6	88.2	103.6	91.0	106.2	81.9	110.3	98.6	98.0	81.1
March	112.0	100.9	105.8	89.3	90.8	108.9	91.3	86.4	104.8	92.2	106.5	80.5	108.4	98.7	97.8	81.2
April	112.5	100.4	106.4	87.5	87.7	109.1	91.3	90.2	104.4	91.5	105.1	80.1	109.9	98.7	98.7	81.5
May	112.2	100.6	107.9	88.2	86.8	108.5	90.8	92.9	104.0	90.8	104.8	79.5	110.6	97.5	99.3	81.7
June	114.3	100.8	106.6	89.4	86.4	107.6	90.7	93.6	103.4	90.2	104.6	78.3	110.6	96.2	99.5	82.2
July	115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August	117.0	101.2	106.2	91.5	85.6	106.5	89.6	94.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November	116.5	100.9	110.7	94.8	85.1	107.1	88.3	92.8	103.2	88.4	104.4	75.9	112.8	94.6	100.9	82.7
December	118.0	100.4	112.1	94.2	84.7	106.8	88.0	91.8	102.8	88.2	104.1	75.8	113.6	94.0	99.5	83.1
December 23	118.5	100.6	112.4	93.3	84.5	106.8	87.9	91.6	102.8	88.0	104.0	76.0	114.0	94.0	99.1	83.2
30	117.6	100.5	112.9	93.4	84.5	107.0	87.8	92.0	102.8	88.0	104.1	75.9	114.2	94.1	99.1	83.2
1984																
January 6	118.5	100.4	113.5	94.5	84.3	106.6	87.9	91.5	102.7	87.8	104.0	76.0	113.5	93.9	99.1	83.2
13	119.4	100.4	113.4	95.7	84.0	106.3	87.7	91.4	102.5	87.8	103.7	75.9	114.1	93.5	99.0	83.3
20	118.9	100.6	113.3	94.9	84.1	106.5	87.6	91.7	102.8	87.6	103.6	76.5	114.0	93.6	99.5	83.2
27	119.2	100.7	113.2	95.9	84.1	106.4	87.5	91.4	102.5	87.7	103.5	76.8	113.9	93.3	99.3	83.6

Real effective exchange rates

Index numbers, 1980-82 average 100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.5	99.6	103.1	93.1	102.2	103.5	103.5	99.2	100.2	107.5	100.0	102.0	98.7	103.7	96.4	101.3
1981	100.7	100.0	104.7	102.8	100.2	97.4	98.7	101.9	99.1	100.3	97.7	99.1	98.8	99.3	101.2	102.1
1932	109.8	100.4	92.3	104.1	97.7	99.1	97.8	98.9	100.7	92.1	102.4	99.0	102.5	96.9	102.4	96.5
1983	112.6	102.9	96.4	99.8	96.3	99.5	96.6	94.7	101.8	91.7	102.1	89.6	105.4	98.7	101.0	91.2
1983																
January	109.4	100.7	97.6	103.7	96.9	100.5	100.9	91.9	102.3	91.3	104.4	91.3	106.2	100.8	98.7	88.9
February	110.2	101.4	96.8	103.7	98.4	99.8	99.9	90.8	102.5	92.8	103.6	91.5	104.9	100.9	100.0	88.6
March	110.6	102.7	96.5	96.3	97.6	101.1	99.7	89.2	103.8	94.0	103.5	90.3	103.0	101.0	99.3	88.7
April	110.4	103.0	96.1	94.6	96.1	100.9	100.1	93.2	102.5	93.0	101.7	90.4	103.9	100.9	100.3	89.3
May	110.3	103.3	96.9	95.4	94.6	100.1	100.2	96.2	101.6	92.7	101.3	90.3	104.1	100.0	101.4	90.0
June	112.6	103.2	95.3	96.6	94.3	99.3	100.0	96.9	101.0	92.3	101.0	89.4	104.0	98.4	100.8	91.2
July	113.2	103.7	95.3	97.2	95.0	98.3	100.1	96.4	101.3	91.8	101.3	87.7	104.7	97.2	101.2	92.1
August	115.5	103.8	93.7	99.5	95.1	98.6	94.5	97.4	101.0	91.5	101.1	88.4	106.2	95.9	101.1	93.0
September	114.1	104.4	94.8	100.9	95.9	98.8	93.5	97.7	101.1	90.8	101.2	88.7	106.1	97.6	102.5	92.7
October	113.5	103.1	97.3	102.3	96.6	39.6	92.2	95.4	102.1	90.3	102.1	88.4	106.8	98.0	102.7	92.5
November	114.7	103.2	97.4	104.1	97.2	98.9	90.4	95.8	101.6	90.0	101.8	88.9	106.6	97.2	102.5	93.4
December	116.1	102.6	98.4	103.8	97.5	98.6	88.8	94.8	101.4	89.6	101.7	89.3	107.7	96.9	101.3	94.2

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Eurodollar											
one month	19.12	13.31	9.13	9.69	9.50	9.81	9.88	9.38	9.44	9.69	9.69
three months	17.55	13.75	9.19	9.81	9.69	10.19	10.25	9.50	9.63	9.75	9.81
six months	16.37	14.81	9.50	10.06	9.94	10.63	10.63	9.69	9.69	9.94	10.06
twelve months	14.87	14.75	9.63	10.38	10.06	10.75	10.94	10.00	9.94	10.31	10.38
Euro-Canadian dollar											
one month	17.50	15.37	10.00	9.13	8.88	9.00	8.88	9.06	8.94	9.25	9.13
three months	16.88	15.37	10.00	9.50	9.19	9.38	9.38	9.13	9.19	9.38	9.50
six months	15.37	16.37	10.13	9.75	9.69	9.88	9.88	9.38	9.38	9.56	9.75
twelve months	14.00	16.37	10.25	10.00	9.94	10.13	10.44	9.75	9.69	9.75	10.00
Euro-French franc											
one month	11.12	15.75	23.00	12.13	12.38	12.13	13.00	12.75	12.25	12.25	12.13
three months	11.75	17.00	24.00	12.19	14.94	13.50	15.00	14.31	12.88	13.19	12.19
six months	12.25	18.00	22.00	12.31	16.69	15.25	16.75	15.81	14.00	14.13	12.31
twelve months	12.87	18.25	19.75	12.63	18.00	16.75	16.88	16.19	14.88	14.69	12.63
Euromark											
one month	8.87	10.44	5.88	5.25	4.94	4.81	5.25	5.56	5.56	6.19	5.25
three months	8.87	10.50	5.88	5.88	5.19	5.06	5.50	5.75	5.81	6.19	5.88
six months	8.87	10.56	5.94	6.13	5.50	5.50	5.94	5.88	5.81	6.19	6.13
twelve months	8.93	10.25	6.00	6.38	5.94	5.94	6.44	6.19	6.13	6.44	6.38
Euro-Dutch guilder											
one month	8.87	10.75	5.13	5.81	4.94	5.44	6.00	5.94	5.75	6.00	5.81
three months	9.31	10.75	5.19	6.00	5.38	5.63	6.25	6.19	6.06	6.19	6.00
six months	9.37	10.75	5.38	6.25	5.88	6.00	6.44	6.25	6.19	6.31	6.25
twelve months	9.62	10.75	5.63	6.38	6.13	6.31	6.75	6.56	6.50	6.63	6.38
Euro-Swiss franc											
one month	6.00	8.87	2.81	3.38	4.56	4.69	4.19	3.69	3.50	4.06	3.38
three months	6.00	9.25	3.25	3.75	4.63	4.75	4.44	4.13	4.13	4.06	3.75
six months	5.75	9.25	3.44	3.94	4.75	4.88	4.81	4.31	4.19	4.19	3.94
twelve months	5.50	8.50	3.44	3.94	4.69	4.81	4.94	4.38	4.31	4.38	3.94
Eurosterling											
one month	14.75	15.37	10.56	9.13	9.63	9.56	9.56	9.63	9.19	9.06	9.13
three months	14.75	15.69	10.44	9.31	9.63	9.81	9.75	9.56	9.25	9.25	9.31
six months	14.25	15.69	10.31	9.50	9.88	10.25	10.13	9.56	9.38	9.44	9.50
twelve months	14.00	15.37	10.31	9.81	10.06	10.50	10.50	9.81	9.69	9.69	9.81
Euroyen											
one month	9.12	6.12	6.75	6.25	6.44	6.44	6.69	6.69	6.13	7.25	6.25
three months	9.25	6.12	6.75	6.31	6.50	6.50	6.63	6.69	6.31	6.75	6.31
six months	9.62	6.87	7.10	6.38	6.50	6.56	6.63	6.69	6.31	6.69	6.38
twelve months	9.37	6.87	6.81	6.44	6.50	6.56	6.75	6.69	6.44	6.69	6.44

International bond issues — by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1983				1984
				Sep	Oct	Nov	Dec	Jan
Eurobonds	**31 616**	**51 645**	**48 447**	**4 445**	**5 493**	**5 919**	**1 277**	**2 522**
U.S. dollar	26 830	43 959	38 406	3 685	4 385	4 470	760	2 125
Canadian dollar	634	1 201	1 039	61	41	209	56	64
German mark	1 277	2 588	3 817	180	116	335	200	81
British pound	501	748	1 915	261	165	518	108	140
Japanese yen	368	374	212	—	64	—	—	—
European composite unit	309	1 980	2 019	171	611	223	62	80
Other	1 697	795	1 039	87	111	164	91	32
Foreign bonds	**21 369**	**26 397**	**27 351**	**1 913**	**2 359**	**2 296**	**1 786**	**913**
U.S. dollar	7 552	5 946	4 400	370	—	65	700	—
German mark	1 310	2 952	2 671	75	173	458	36	107
Dutch guilder	481	956	1 053	33	189	83	—	—
British pound	746	1 214	520	—	187	44	22	56
Swiss franc	8 285	11 432	14 264	1 260	1 108	1 231	727	651
Japanese yen	2 457	3 418	3 772	165	365	404	297	86
Other	538	479	671	10	337	11	4	13
Total	**52 985**	**78 042**	**75 798**	**6 358**	**7 852**	**8 215**	**3 063**	**3 435**

International bond issues — by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	*1982*	*1983*	*1983*				*1984*
				Sep	*Oct*	*Nov*	*Dec*	*Jan*
Industrial countries	**40 861**	**63 062**	**59 840**	**5 088**	**6 378**	**6 572**	**2 429**	**2 802**
Australia	991	2 250	2 359	100	849	132	45	106
Austria	1 557	1 668	1 265	—	25	87	100	117
Belgium	527	211	1 153	92	50	400	100	—
Canada	10 648	11 979	7 411	975	788	443	792	350
Denmark	695	1 269	1 719	537	—	248	72	36
Finland	672	815	866	33	79	50	4	100
France	3 156	8 456	6 405	815	316	252	250	—
Germany	279	1 101	3 095	14	462	282	79	40
Ireland	517	625	959	56	176	437	—	—
Italy	1 108	2 214	1 565	170	578	300	36	—
Japan	6 928	8 397	13 990	818	939	1 842	400	1 006
Netherlands	630	894	946	53	75	66	65	50
New Zealand	1 107	1 375	455	—	—	—	—	—
Norway	530	832	667	27	175	—	26	50
Portugal	30	206	76	—	—	30	—	—
South Africa	92	374	548	28	—	18	105	—
Spain	444	747	1 449	200	—	469	43	22
Sweden	2 050	2 479	3 755	46	1 080	116	85	13
United Kingdom	1 408	1 201	1 398	208	175	187	50	200
United States	6 770	14 538	7 462	829	600	942	90	676
Yugoslavia	—	—	—	—	—	—	—	—
*Other**	722	1 431	2 297	87	11	271	87	36
Developing countries	**4 886**	**5 003**	**2 473**	**320**	**113**	**314**	**21**	**40**
Latin American countries	**3 658**	**2 480**	**71**	—	—	—	—	—
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—	—	—
Mexico	3 012	1 919	—	—	—	—	—	—
Panama	25	—	21	—	—	—	—	—
Peru	25	—	—	—	—	—	—	—
Venezuela	291	385	—	—	—	—	—	—
*Other***	—	50	50	—	—	—	—	—
Asian countries	**1 068**	**2 075**	**2 190**	**320**	**113**	**254**	**21**	—
Hong Kong	70	40	50	—	—	50	—	—
India	271	225	60	—	—	20	—	—
Indonesia	97	412	328	250	—	—	—	—
Korea	323	172	556	70	—	70	21	—
Malaysia	—	807	831	—	43	64	—	—
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	70	—	—	—
Thailand	93	63	255	—	—	50	—	—
Other	85	181	40	—	—	—	—	—
Middle Eastern and African countries	**160**	**448**	**212**	—	—	**60**	—	**40**
Algeria	—	—	—	—	—	—	—	—
Egypt	—	75	—	—	—	—	—	40
Israel	117	200	135	—	—	—	—	—
Ivory Coast	—	—	—	—	—	—	—	—
Morocco	—	—	—	—	—	—	—	—
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	—	—	60	—	—
Centrally planned countries	**75**	**65**	**75**	—	—	—	—	—
China	—	65	50	—	—	—	—	—
Hungary	20	—	—	—	—	—	—	—
Poland	—	—	—	—	—	—	—	—
*Other****	55	—	25	—	—	—	—	—
International organizations****	**7 163**	**9 912**	**13 410**	**950**	**1 361**	**1 329**	**613**	**593**
Total	**52 985**	**78 042**	**75 798**	**6 358**	**7 852**	**8 215**	**3 063**	**3 435**

*Includes multinational organizations.
**Includes unallocated.
***Includes COMECON institutions.
****Includes regional development organizations.

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	*1982*	*1983*	*1983*				*1984*
				Sep	*Oct*	*Nov*	*Dec*	*Jan*
Industrial countries	**86 022**	**42 471**	**38 553**	**2 834**	**6 945**	**3 650**	**2 941**	**8 528**
Australia	1 680	4 721	3 131	297	—	30	755	90
Belgium	360	1 172	883	—	—	800	—	—
Canada	4 112	3 838	967	190	127	450	—	290
Denmark	1 661	789	1 586	—	—	—	—	—
Finland	463	631	283	—	—	—	55	—
France	3 912	5 703	1 708	75	222	148	—	—
Greece	1 039	770	1 085	—	—	249	—	—
Ireland	1 361	401	765	—	—	—	144	—
Italy	6 030	3 657	2 926	486	311	216	48	—
New Zealand	476	3 411	70	—	35	—	—	—
Norway	713	1 769	1 210	13	—	21	600	—
Portugal	1 590	1 388	879	—	500	—	79	—
South Africa	287	1 479	752	—	50	—	—	—
Spain	3 242	1 849	2 988	98	222	160	329	129
Sweden	1 867	649	3 188	87	—	—	—	—
United Kingdom	747	1 635	1 328	—	315	—	59	—
United States	54 784	6 516	12 912	1 450	4 983	1 410	872	8 019
Yugoslavia	684	719	615	—	—	—	—	—
*Other**	1 014	1 374	1 277	138	180	166	—	—
Developing countries	**45 264**	**41 519**	**32 846**	**2 134**	**587**	**2 300**	**156**	**365**
Latin American countries	**30 152**	**26 719**	**15 289**	**372**	**249**	**59**	**18**	**30**
Argentina	2 534	1 565	1 750	—	—	—	—	—
Brazil	5 751	5 716	4 475	—	—	—	—	—
Chile	2 204	1 194	1 319	—	—	—	—	—
Colombia	1 030	741	459	139	100	—	—	—
Ecuador	934	815	431	—	—	—	—	—
Mexico	7 530	7 953	5 138	—	—	38	—	—
Panama	255	378	413	93	—	—	—	30
Peru	1 407	1 069	500	5	29	—	—	—
Venezuela	7 559	6 799	237	—	—	—	—	—
*Other***	948	489	567	135	120	21	18	—
Asian countries	**10 288**	**8 403**	**8 819**	**1 233**	**96**	**639**	**100**	**335**
Hong Kong	664	33	—	—	—	—	—	—
India	377	284	809	108	—	91	—	50
Indonesia	725	1 250	1 467	—	—	11	15	—
Korea	2 824	2 923	3 245	995	96	372	20	85
Malaysia	1 725	1 909	950	60	—	—	30	—
Pakistan	350	455	365	—	—	25	—	—
Philippines	1 257	635	815	—	—	100	—	—
Thailand	692	268	349	50	—	15	35	—
Other	1 674	646	819	20	—	25	—	200
Middle Eastern and African countries	**4 824**	**6 397**	**8 738**	**529**	**242**	**1 602**	**38**	—
Algeria	—	26	1 964	21	—	1 217	—	—
Egypt	63	353	300	—	—	15	—	—
Israel	—	4	—	—	—	—	—	—
Ivory Coast	499	434	30	—	—	—	—	—
Morocco	774	326	294	—	—	—	—	—
Nigeria	1 802	2 042	1 775	22	—	17	—	—
Turkey	100	277	1 078	372	205	—	—	—
United Arab Emirates	363	93	876	61	—	100	—	—
Other	1 223	2 842	2 421	53	37	253	38	—
Centrally planned countries	**1 791**	**765**	**1 212**	—	**75**	—	**200**	—
China	370	43	10	—	—	—	—	—
East Germany	470	8	392	—	—	—	—	—
Hungary	550	340	683	—	75	—	200	—
Poland	—	—	—	—	—	—	—	—
Soviet Union	25	374	68	—	—	—	—	—
*Other****	376	—	59	—	—	—	—	—
International organizations****	**302**	**150**	**1 321**	—	—	—	—	—
Total	**133 379**	**84 905**	**73 932**	**4 968**	**7 607**	**5 950**	**3 297**	**8 893**

*Includes multinational organizations.
**Includes unallocated.
***Includes COMECON institutions.
****Includes regional development organizations.

Central bank discount rates

at or near end of month

	1980	1981	1982	1983				Current	
	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Jan 27 1984	effective since
United States	13.00	12.00	8.50	8.50	8.50	8.50	8.50	8.50	Dec 15, 82
Canada	17.36	14.66	10.05	9.42	9.42	9.49	9.96	9.88	Jan 26, 84
Austria	6.75	6.75	4.75	3.75	3.75	3.75	3.75	3.75	Mar 18, 83
Belgium	12.00	15.00	11.50	11.00	9.00	9.00	10.00	10.00	Nov 24, 83
Denmark	11.00	11.00	10.00	8.50	7.50	7.50	7.00	7.00	Oct 27, 83
Finland	9.25	9.25	8.50	8.50	8.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	7.50	5.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 73
Ireland	12.75	17.15	14.35	14.35	13.80	12.20	11.50	11.50	Nov 11, 83
Italy	16.50	19 00	18.00	18.00	17.00	17.00	17.00	17.00	Apr 9, 83
Netherlands	8.00	9.00	5.00	3.50	4.50	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	9.00	9.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	18.00	19.00	23.00	23.00	25.00	25.00	25.00	Aug, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	12.00	11.00	10.00	9.00	8.50	8.50	8.50	8.50	Apr 8, 83
Switzerland	3.00	6.00	4.50	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.00	14.37	10.00	10.50	9.56	9.50	9.00	9.00	Oct 4, 83
Japan	7.25	5.50	5.50	5.50	5.50	5.50	5.00	5.00	Oct 22, 83
New Zealand	14.00	13 00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	7.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 12, 81
Argentina	87.01	98.50	128.54	145.29	161.87	183.75	183.75	183.75	Sep 5, 83
Korea	15.01	10.50	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	4.00	4.00	4 00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	10.50	9 50	7 00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	13 50	14.50	12.50	11.50	11.50	11.50	13.00	13.00	Dec, 83
Venezuela	13.00	14.00	13.00	13.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	18.90	12.37	8.95	8.63	8.98	9.37	9.56	9.45	9.48	9.34	9.36
Canada	15.61	14.53	10.63	9.23	9.45	9.31	9.35	9.25	9.35	9.43	8.78
Austria	11.50	7.50	6.00	4.38	4.50	5.00	5.00	5.50	5.63	5.63	5.75
Belgium	9.68	12.78	9.43	7.45	7.68	7.49	7.61	6.38	6.89	8.58	8.65
Finland	12.50	11.30	11.50	15.00	15.00	15.00	15.00	16.67	16.95	16.70	16.70
France	10.87	15.46	12.88	12.46	12.61	12.40	12.54	12.56	12.35	12.37	12.27
Germany	9.13	10.65	6.07	5.00	5.05	5.04	5.07	5.43	5.53	5.59	5.60
Ireland	13.31	16.88	14.54	14.38	13.62	13.75	12.50	12.63	11.00	12.25	12.19
Italy	17.50	20.63	19.00	18.00	17.80	17.75	17.88	17.69	17.75	17.79	17.88
Netherlands	8.37	10.67	5.31	5.22	5.06	5.29	5.77	5.68	5.82	5.70	5.84
Norway	11.00	18.60	11.00	12.75	12.00	12.00	12.70	12.30	13.50	13.00	13.00
Spain	16.74	18.73	20.30	21.01	20.10	21.05	23.33	19.85	20.27	18.56	16.41
Sweden	11.41	13.82	8.63	11.00	11.05	11.00	10.15	11.30	12.00	11.97	11.48
Switzerland	5.75	3.38	1.25	3.88	3.00	3.00	2.00	2.00	1.75	1.63	1.88
United Kingdom	13.00	9.13	6.70	6.00	6.63	6.60	6.31	7.30	7.81	7.06	7.77
Australia	9.51	12 84	11.04	11.16	10.87	9.84	10.13	9.80	9.03	9.31	4.56
Japan	9.49	6.70	6 92	6.08	6.20	6.39	6.46	6.53	6.43	5.99	6.47
South Africa	5.60	12.34	12.90	9.73	10.91	12.29	13.62	13.43	13.66	14.24	15.63
Argentina	70 84	84.93	155.32	162.81	170.43	210.04	106.40	178.30	178.30	178.30	178.30
Hong Kong	14.05	10.75	9.13	11.31	12.38	7.00	6.81	13.25	18.00	10.00	13.90
Korea	14.82	14.40	13.84	13.40	13.40	12.70	12.70	12.80	12.80	12.90	11.40
Philippines	15.70	14.70	16.12	13.55	13.05	13.59	15.56	16.54	24.23	18.96	n.a.
Singapore	10.23	3.96	11.45	6.63	5.96	8.08	6.33	6.51	7.02	7.23	7.05

Treasury bill rates

bond equivalent yields, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	14.87	11.90	8.15	8.75	9.02	9.50	9.52	9.05	8.92	9.05	9.28
Canada	17.01	14.41	9.80	9.25	9.17	9.24	9.32	9.24	9.24	9.38	9.71
Belgium	12.75	16.00	12.25	10.00	9.50	9.25	9.25	9.25	9.50	10.85	10.85
Ireland	12.84	17.35	14.70	14.01	12.95	13.09	13.01	12.12	11.96	11.66	11.63
Italy	16.87	21.36	19.11	17.65	17.35	17.35	17.24	17.18	17.08	17.05	16.95
Netherlands	8.00	9.75	5.63	5.63	4.63	5.38	6.00	5.88	5.63	5.63	5.63
Spain	17.20	15.83	16.96	21.67	21.52	22.53	22.93	22.24	20.74	19.08	17.61
Sweden	12.87	9.20	8.18	7.13	7.12	7.12	7.13	7.13	7.13	7.13	7.13
United Kingdom	13.45	15.31	9.90	9.68	9.29	9.40	9.57	9.21	8.89	9.08	9.08
Australia	12.17	13.27	9.39	11.83	11.93	10.59	10.96	10.34	9.38	9.32	8.54
Japan	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	4.91	4.91	4.91
New Zealand	11.25	11.25	11.25	12.00	12.00	7.80	7.80	7.80	7.80	7.80	7.80
South Africa	6.31	14.55	14.62	11.81	13.96	14.46	16.19	14.91	15.66	17.47	18.43
Korea	16.35	16.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Mexico	27.73	33.33	57.44	63.04	62.36	61.10	57.89	56.17	55.60	54.15	n.a.
Philippines	12.74	13.40	14.53	14.49	14.00	14.03	14.48	14.71	15.04	15.56	n.a.
Singapore	6.77	3.03	2.74	2.51	2.61	2.59	2.58	2.65	2.63	2.62	2.59

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	17.62	12.78	8.81	8.63	9.34	9.57	9.52	9.36	9.26	9.31	9.75
Canada	17.50	15.25	9.95	9.50	9.45	9.40	9.50	9.40	9.40	9.60	9.87
Belgium	13.10	16.00	12.35	10.00	9.50	9.25	9.25	9.25	9.60	11.00	11.00
France	11.56	15.25	12.75	12.44	12.50	12.13	12.25	12.50	12.19	12.31	12.19
Germany	10.20	10.50	6.20	5.25	5.55	5.50	5.85	5.80	6.15	6.25	6.30
Ireland	13.63	18.50	15.75	14.75	13.63	13.88	13.38	12.69	12.53	12.38	12.19
Italy	17.37	21.00	19.00	17.75	17.50	17.50	17.60	17.50	17.63	17.88	17.88
Netherlands	9.37	11.00	5.25	6.13	5.38	5.69	5.31	6.25	6.13	6.31	6.00
Portugal	11.00	13.80	15.04	17.00	17.00	17.00	20.24	22.30	23.00	24.17	24.11
Spain	17.40	15.52	16.55	21.57	20.76	22.48	24.04	22.06	22.19	20.29	18.48
Switzerland	7.50	10.12	3.88	4.75	4.81	5.00	4.75	4.25	4.25	4.25	3.88
United Kingdom	14.75	15.69	10.50	10.25	9.75	10.06	9.75	9.56	9.31	9.25	9.31
Australia	13.00	16.00	10.65	13.00	13.85	12.10	12.20	11.15	11.00	10.60	9.50
Japan	9.80	6.30	6.80	6.36	6.47	6.59	6.61	6.62	6.30	6.42	6.42
New Zealand	14.25	16.05	16.75	16.00	16.75	12.75	10.25	10.00	10.75	12.00	12.10
South Africa	7.12	15.47	15.26	12.21	14.88	14.94	16.61	16.45	16.94	18.19	19.12
Chile	26.79	34.54	71.44	31.37	25.34	25.34	23.87	25.34	25.34	25.34	22.42
Hong Kong	17.69	14.18	10.13	11.50	12.88	9.88	8.94	12.75	16.88	11.50	12.84
Indonesia	12.54	14.48	18.50	16.00	16.50	14.50	15.00	16.50	15.00	15.00	19.50
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.41	9.50	8.50	7.80	7.60	7.85	8.40	8.10	8.20	8.65	9.80
Philippines	15.01	17.61	15.91	15.57	15.06	15.96	15.62	16.49	18.26	17.34	n.a.
Singapore	14.12	7.81	8.69	7.56	7.81	7.88	7.38	7.38	7.50	7.63	8.44
Taiwan	14.49	10.94	9.94	7.90	8.69	8.98	9.28	8.38	7.82	7.26	7.65
Thailand	16.55	14.29	12.25	11.50	11.50	12.00	12.75	14.00	14.25	14.50	16.00

Commercial bank deposit rates

at or near end of month

	1980	*1981*	*1982*	*1983*							
	Dec	*Dec*	*Dec*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
United States	16 25	12.62	8.25	8.88	9.18	9.65	9.65	9.20	9.30	9.30	9.70
Canada	17.00	15.20	9.85	9.40	9.35	9.35	9.45	9.35	9.35	9.50	9.82
Austria	11.25	9.63	6.25	4.69	5.00	5.31	5.56	6.06	6.31	6.38	6.50
Belgium	12.63	15.50	12.25	10.13	9.25	9.13	9.25	9.50	9.38	11.25	11.25
Denmark	10.00	10.00	9.00	6.50	6.50	6.50	6.50	6.50	6.00	6.00	6.00
Finland	5.00	5.00	4.25	4.25	4.25	5.25	5.25	5.25	5.25	5.25	5.25
France	11.25	9.16	8.24	8.24	8.24	8.24	7.30	7.80	7.70	7.70	7.66
Germany	8.00	9.50	6.00	4.85	4.90	4.90	4.90	5.63	5.60	5.80	5.90
Ireland	13.63	18.38	15.25	14.50	13.25	13.50	13.13	12.25	12.50	12.25	11.75
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	9.50	11.00	5.38	6.25	5.50	5.63	5.25	6.13	6.06	6.19	6.13
Norway	11.30	12.75	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.75
Portugal	12.00	14.00	15.00	19.50	19.50	19.50	21.50	21.50	21.50	21.50	21.50
Spain	4.50	11.78	12 53	12.36	12.47	12.28	12.28	12.24	12.08	12.50	n.a.
Sweden	9.75	10.25	9.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Switzerland	7.50	8.75	3.00	3.75	4.25	4.00	3.75	3.75	3.50	3.50	3.50
United Kingdom	14.87	15.69	10.31	10.28	n.a.	10.06	9.78	9.50	9.25	9.22	9.31
Australia	12.71	15.65	10.20	12.68	14.84	12.05	11.88	10.56	10.96	10.35	10.40
Japan	9.00	6.50	7.00	6.60	6.67	6.80	6.83	6.88	6.45	6.60	6.50
New Zealand	13.50	15.50	16.50	14.75	16.50	10.00	9.00	9.00	9.50	10.75	11.50
South Africa	7.87	14.75	15.25	12.35	14.75	14.95	16.62	17.00	17.00	18.43	20.13
Argentina	72.00	86.76	103.42	121.66	108.28	127.75	139.92	176.41	176.41	176.41	176.41
Chile	39.45	36 87	57.72	30.60	24.60	24.31	24.75	25.19	25.19	25.19	22.28
Hong Kong	13.00	12.50	7.50	11.00	10.50	8.50	8.50	12.00	10.00	9.00	9.00
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Malaysia	8.60	10.00	8.40	7.40	6.80	6.80	6.80	7.15	7.15	7.60	7.75
Mexico	26.15	31.82	52.54	60.35	60.03	59.25	57.33	56.38	55.28	54.88	54.70
Philippines	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	13.19	7.50	8.25	7.07	7.01	7.44	6.88	6.81	7.07	7.19	7.44
Taiwan	10.25	10.75	7.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Thailand	9.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	16.00	14.75	15.50	15.00	14.00	13.50	13.00	12.50	12.00	12.00	12.00

Domestic government bond yields

long-term issues, at or near end of month

	1980	*1981*	*1982*	*1983*							
	Dec	*Dec*	*Dec*	*May*	*Jun*	*Jul*	*Aug*	*Sep*	*Oct*	*Nov*	*Dec*
United States	11.46	14.33	10.61	10.91	11.20	11.95	11.77	11.65	11.85	11.89	12.00
Canada	12.69	15.27	11.69	11.30	11.56	12.03	12.34	11.76	11.73	11.80	12.02
Austria	9.62	10.37	8.81	8.07	8.14	8.18	8.31	8.32	8.16	8.06	n.a.
Belgium	13.04	13.99	12 66	11.63	11.53	11.42	11.46	11.39	11.32	11.75	11.89
Denmark	19.98	20.91	20.14	14.17	15.38	15.56	14.92	14.19	13.95	14.22	12.96
Finland	10.42	10.98	10.64	10.69	10.55	10.58	11.20	10.97	11.19	11.16	n.a.
France	14.31	16.44	15.40	14.55	14.52	14.04	13.96	14.03	14.15	14.12	13.96
Germany	9.19	9.71	7.90	8.09	8.11	8.27	8.55	8.43	8.30	8.34	8.38
Ireland	15.63	18.28	14.54	13.51	13.61	13.81	13.60	13.72	13.82	13.72	14.25
Italy	16.23	21.39	19.70	18.13	18.39	18.42	18.11	17.79	17.64	17.78	17.69
Netherlands	10.48	11.28	8.16	9.30	9.00	9.08	9.03	8.80	8.53	8.57	8.58
Norway	10.44	12.37	13.32	12.75	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Portugal	17.19	17.39	16.63	18.17	18.45	19.30	21.57	21.97	22.05	n.a.	n.a.
Spain	16.15	16.20	15.92	17.31	17.74	17.60	18.31	18.76	19.47	19.50	n.a.
Sweden	12.61	12.80	13.01	12.14	12.17	11.85	11.24	12.20	12.24	12.44	12.44
Switzerland	4.63	5.40	4.22	4.51	4.59	4.76	4.73	4.71	4.61	4.62	4.52
United Kingdom	13.05	15.02	10.62	10.10	10.12	10.71	10.65	10.15	10.13	9.93	9.94
Australia	13.00	15.00	13.00	14.80	15.10	15.00	14.60	14.40	13.70	13.40	13.65
Japan	9.04	8.32	7.76	7.80	7.78	7.87	7.80	7.58	7.51	7.39	7.19
New Zealand	12.99	12.55	12.84	14.00	13.59	14.02	10.41	10.13	9.72	n a.	n.a.
South Africa	11.81	13.33	11.31	10.10	13.12	13.29	13.40	13.14	13.29	13.60	13.70
Philippines	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
Venezuela	7.39	12.50	15.00	15.75	15.75	15.00	15.00	14.00	14.00	14.00	13.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	21.50	15.75	11.50	10.50	10.50	10.50	11.00	11.00	11.00	11.00	11.00
Canada	18.25	16.50	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Austria	12.50	13.50	11.75	9.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	15.75	18.00	15.50	14.00	13.25	12.50	12.50	12.50	12.50	13.25	13.75
Denmark	13.75	15.00	14.00	11.00	10.50	10.50	10.50	10.50	10.50	10.00	10.00
Finland	9.83	9.84	8.95	9.00	9.07	10.07	10.10	10.16	10.14	10.15	n.a.
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	14.50	17.25	16.50	16.25	15.00	15.00	15.00	13.75	13.75	13.75	13.75
Italy	20.50	22.50	20.75	18.75	18.75	18.75	18.75	18.75	18.75	18.75	18.75
Netherlands	10.75	12.00	6.25	6.25	6.25	6.25	6.75	7.00	6.75	6.50	7.00
Portugal	12.50	13.75	14.50	14.25	14.88	13.88	13.13	13.50	13.25	13.75	13.50
Norway	18.75	20.50	23.50	27.50	27.50	27.50	30.00	30.00	30.00	30.00	30.00
Spain	18.50	17.04	19.00	22.40	22.73	23.47	25.19	24.09	23.70	22.87	20.85
Sweden	11.75	13.50	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Switzerland	5.75	8.00	6.00	5.50	5.50	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	15.00	14.50	10.00	10.00	9.50	9.50	9.50	9.50	9.00	9.00	9.00
Australia	13.50	15.75	15.00	15.00	16.00	14.50	14.50	14.00	13.25	13.25	12.75
Japan	8.16	6.05	6.28	6.26	6.25	6.25	6.24	6.23	6.23	6.10	6.10
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	11.00	11.00	11.00	11.00	11.00
South Africa	9.50	17.00	18.00	14.00	16.00	16.00	18.00	18.00	18.00	19.00	20.00
Argentina	77.00	92.60	109.50	170.00	184.00	240.00	152.08	188.58	188.58	188.58	188.58
Chile	49.55	61.43	85.19	49.65	44.21	43.14	37.50	39.83	40.60	40.40	35.11
Hong Kong	17.00	16.00	10.50	11.50	13.50	11.50	11.50	16.00	15.00	13.50	13.50
Indonesia	21.00	19.25	22.00	22.00	22.00	22.00	19.00	19.50	19.50	19.50	19.75
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	8.50	12.00	12.50	11.25	10.75	10.75	11.00	11.00	11.00	11.00	11.00
Mexico	24.25	31.81	46.12	58.40	58.63	58.73	58.23	57.78	57.14	56.82	56.44
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	13.60	11.83	9.33	9.03	8.88	9.00	9.00	8.95	8.93	8.93	8.98
Taiwan	16.20	15.25	10.75	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25
Thailand	16.50	17.00	16.00	16.00	16.00	16.00	15.50	15.50	15.50	15.50	16.00
Venezuela	15.00	15.50	17.00	17.00	17.00	16.50	16.25	16.00	16.00	16.00	16.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
United States	13.00	15.50	11.75	11.75	11.75	12.75	12.50	12.25	12.63	12.38	12.63
Canada	13.53	16.18	12.74	12.44	12.40	13.03	13.13	12.54	12.57	12.58	12.89
France	15.23	17.33	15.91	14.85	14.86	14.76	14.48	14.36	14.62	14.30	14.06
Germany	9.50	10.50	8.20	7.40	7.90	8.00	8.10	8.30	8.30	8.30	8.30
Netherlands	10.71	11.03	7.80	8.91	8.79	8.75	8.79	8.68	8.39	8.53	8.51
Norway	11.24	13.36	14.13	13.50	13.25	13.25	12.25	13.25	13.25	13.25	13.25
Spain	14.82	14.76	17.10	16.77	16.86	18.00	19.59	20.05	20.37	20.03	n.a.
Sweden	11.95	12.94	13.37	12.89	12.79	12.85	12.77	12.99	12.40	12.51	12.21
Switzerland	5.63	6.60	5.92	5.94	6.06	6.10	6.21	6.43	6.27	6.29	5.95
United Kingdom	14.21	16.65	12.34	12.12	11.89	12.34	12.27	11.89	11.84	11.51	11.57
Australia	14.25	16.50	15.00	16.00	16.00	15.75	15.50	15.00	15.00	15.00	13.50
Japan	8.60	7.70	7.55	7.16	7.30	7.34	7.32	7.30	7.29	7.27	7.09
Korea	28.20	26.90	15.90	13.90	13.90	13.30	13.90	14.20	14.10	14.20	14.20
Venezuela	16.15	17.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00

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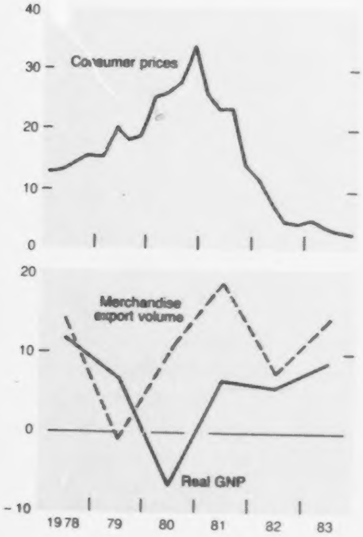
Chart 1

Inflation and growth in Korea
year-on-year percent changes



Korea: adjustment model for the 1980s?

Korea's achievements in adapting its economy to the turbulent world of the 1980s exemplify the benefits that can flow from an outward-looking, market-oriented strategy for economic adjustment and development similar to that now being urged on many other developing countries. Of course, Korea's record is not unblemished. Much remains to be done in the way of economic liberalization. Nevertheless, there is much in Korea's experience that other countries can usefully seek to emulate.

Korea entered the 1980s with an overheated economy suffering from structural imbalances. In the mid-1970s, Korean policymakers orchestrated a rapid structural transformation by directing subsidized credit to capital-intensive, heavy, and chemical industries. Overall economic growth became unsustainable, fueled by rapid domestic credit creation and heavy foreign borrowing. The economic structure grew increasingly distorted and inflation accelerated. By 1979, refusal to adjust the exchange rate to offset the adverse inflation differential accumulated over the previous two years left the won seriously overvalued. Aggravated by the second oil shock and the unfavorable turn in the global economic environment, a large current account deficit emerged and caused foreign debt to mount rapidly. Moreover, the assassination of Korea's president in October 1979 left the political outlook uncertain.

Today, thanks to timely and decisive redirection of domestic policies toward inflation control, a flexible exchange rate policy, and structural adjustments that take better advantage of the country's comparative advantage, Korea's performance and prospects have improved significantly. Inflation has practically disappeared. GNP growth is among the highest in the world. And Korea's export performance is remarkable, given sluggish world trade (see Chart 1). As a result, the country's current account deficit is much reduced and its debt burden is easing relative to its exports.

The mixed legacy of high growth

The high growth strategy pursued by Korea after 1962 transformed a stagnant, resource-poor nation into a dynamic, semi-industrialized economy in less than 20 years. Growing at a compound annual rate approaching 10% in real terms, the economy more than quadrupled its size by the late 1970s. Momentum came mostly from 30% annual real

Table 1

South and North Korea

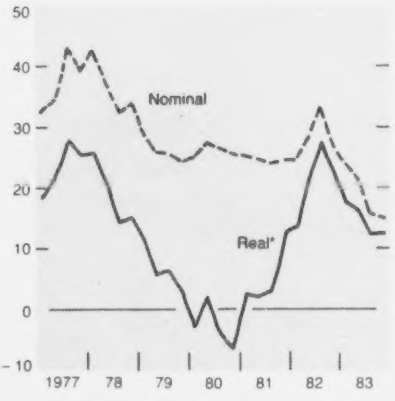
data are estimates for 1983 except as noted

	South Korea	*North Korea*
Population, millions	40.0	21.2
GNP		
billions of dollars	74.9	19.7
dollars per capita	1875	930
Military-related expenditure, percent of GNP	6	24
Merchandise exports		
billions of dollars	23.2	0.9
percent of GNP	31	5
Debt to commercial banks, billions of dollars (end-June)	22.7	0.6
Real GNP, average annual increase in percent		
1963-1975	9.2	8.2
1976-1983	7.2	1.8

Chart 2

Broad money supply in Korea

year-on-year percent changes in M2



*Nominal M2 deflated by year-on-year percent changes in consumer prices

growth in exports of manufactures. The transformation was aided by a literate and industrious labor force, a large pool of entrepreneurial and managerial manpower, and total political commitment to economic growth. Given a poor natural resource endowment and a small domestic market, an outward-looking strategy emphasizing exports of labor-intensive manufactures could best exploit the country's potential.

Commitment to economic growth derived from the dual necessities of breaking the circle of poverty and building a credible military deterrent to the threat from North Korea, whose per capita output used to exceed the Republic's but which now lags behind (see Table 1). Inflation control was a minor priority, as evidenced by two decades of double-digit annual inflation. Although such external factors as high oil prices contributed, the country's inflation was largely homemade. Still, its potentially adverse effects on exports and economic growth were largely contained so long as Korea adjusted its exchange rate to offset adverse inflation differentials and changed interest rates to maintain positive real yields, as it did until the mid-1970s.

Thereafter inflationary pressures mounted rapidly. The Korean authorities underestimated the consequences of narrowing current account deficits, induced by the 18% maxidevaluation of December 1974 and the country's success in meeting its oil bill by sale of construction services to oil-exporting countries. The financing of most capital goods imports by long-term capital inflows led to reserve accumulation. Reserves multiplied fivefold from 1974 through 1979. Korea failed to neutralize the expansionary impact on its monetary base. Superimposed on a booming economy that was overextended by three years of 25% annual increases in real investment and 12% annual gains in real GNP, the acceleration of money growth above 40% in 1977 presaged a dramatic jump in inflation.

Aggravating inflationary pressure was the timing and scope of efforts to shift the country's comparative advantage away from labor-intensive, assembly-oriented manufactures toward capital- and technology-intensive intermediate and capital goods. This redirection was partly motivated by the perceived need to develop domestic defense industries in the wake of the U.S. disengagement from Vietnam.

Through officially directed, subsidized credit, massive resources were committed to such targeted heavy industries as steel, petrochemicals, shipbuilding, general machinery, and power-generating equipment. Unhappily, Korea underestimated the backward and forward linkages required to implement the new industrial strategy cost-effectively. For example, subcontracting capabilities to produce the intermediate inputs to various stages of the production process were little developed. In addition, Korea overestimated the strength of demand, at home or abroad, for heavy industrial goods. Thus, excess capacity emerged in heavy industries, while excess demand in the face of capacity limitations for light industrial goods fueled inflationary pressures. Moreover, the long gestation periods of heavy-industrial investment, creating income gains without immediate output gains, further boosted domestic prices.

Policies for adjustment

Accelerating inflation and shortages of daily necessities were a key campaign issue in the December 1978 general election. President Park Chung-Hee subsequently appointed a new economic management team, which devised a comprehensive

Chart 3

Exchange rate of the Korean won

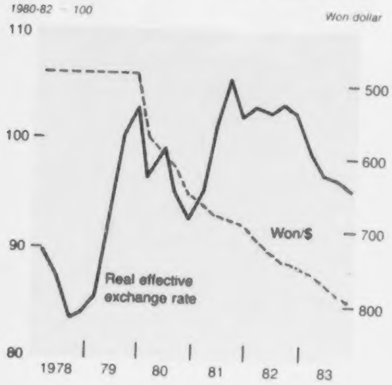
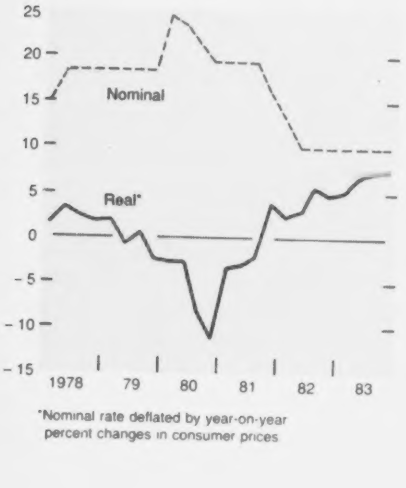


Chart 4

Interest rates in Korea

lending rate to prime domestic borrowers
percent per annum



*Nominal rate deflated by year-on-year percent changes in consumer prices

price stabilization and industrial restructuring program. Among the principal architects of the new adjustment policies was Kim Jae-Ik, who later became President Chun Doo-Hwan's senior economic advisor and was among those killed in the Burma bombing last October.

Real GNP growth was to be contained to 9% in 1979 following the average rate of 12% plus over the preceding three years, while inflation was to be rolled back to 10%-12% from the over-14% recorded in 1978. Monetary policy was the principal instrument of restraint. Fiscal policy was assigned a supportive, albeit subordinate role, with the objective of reducing the budget deficit by 1% of GNP. The focus on heavy industrialization was switched to favor light industries. The program's ultimate objective was to improve the self-adjusting capacity of the economy through greater reliance on market-directed resource allocation. This required accelerated import liberalization to expose a previously sheltered internal market to the rigors of competition from abroad, and correction of a distorted price structure.

Domestic price deregulation was, therefore, a key element of the program. Its immediate consequence, however, was to increase the recorded rate of inflation. Because of the lag in response to demand restraint, not to mention the second oil shock, attainment of the lower inflation target proved impossible. The money supply target was achieved, however, with growth in M2 down to 25% from the 36% average of the previous three years (see Chart 2). The budget deficit narrowed by the intended 1% of GNP. These monetary and fiscal policies slowed output growth substantially. Many businesses were driven to the brink of bankruptcy and unemployment increased. However, Korea's vigorously competitive labor markets and the absence of union rigidities ensured that the momentum of a wage spiral was quickly broken.

The principal omissions from the initial liberalization effort were credit and foreign exchange markets. The highly leveraged financial structures of firms that benefited from subsidized credit deterred the necessary upward movement of interest rates. During 1979 exchange rate adjustment was ruled out as incompatible with the primary goal of containing inflation. By year-end, however, overvaluation was conspicuous: whereas the export volumes of such competitors as Taiwan, Singapore, and Hong Kong were still increasing at double-digit rates in 1979, Korea's export volume actually fell.

In January 1980, less than three months after President Park's assassination, Korea introduced drastic adjustment policies targeted at the external deterioration. The won was initially devalued by 20% against the dollar (see Chart 3). Subsequent exchange rate policy was to be flexible, with no further commitment to a fixed dollar rate. To induce energy conservation, user prices were raised by 60% on average — gasoline, for example, was hiked to over $4 per gallon. And, to reduce overall domestic demand — by an intended 3%-4% in real terms — fiscal and monetary policies were tightened. Interest rates were raised by an average 6 percentage points (see Chart 4). In addition, a $600 million balance of payments support loan was secured from the IMF under a two-year Standby Agreement.

The new policies placed severe strains on the economy, which also reeled from uncontrollable events: bad weather slashed agricultural output by 22%; the oil-price shock subtracted 5% of GNP from domestic purchasing power; and political instability following the presidential assassination undermined confidence. In all, inflation, already 18% in 1979, gathered momentum. Con-

Chart 5

The Korean budget

data are for current and capital budgets of central government and state entities

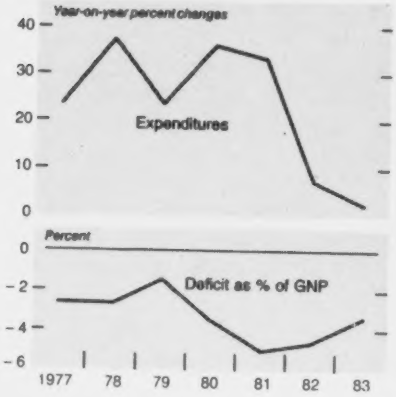


Table 2

Korea: current account adjustment, 1979-83*

in percent of GNP

	1978-1979	1980	1981	1982-1983
Changes due to exogenous sources	—1.3	—9.4	—3.2	3.5
Oil price	—1.9	—4.4	—1.8	1.2
Foreign interest rates	—0.7	—1.1	—1.1	2.6
Non-oil terms of trade and other	1.3	—3.9	—0.3	—0.3
Changes due to adjustment efforts	—5.6	7.3	4.3	1.2
Import volume	—9.2	4.5	—1.3	—5.1
Export volume	2.4	3.0	4.9	6.5
Other	1.2	0.1	0.7	—0.2
Total change in current account deficit	—6.9	—2.1	1.1	4.7

*A negative sign denotes an increase in the deficit.
Source: IMF and MGT estimates.

sumer price increases surpassed 28% in 1980. Real GNP plummeted over 6%, its first actual decline since 1962.

Still, stagflation was also a consequence of the government's adjustment policies. Unexpectedly high inflation rendered monetary policy in 1980, as gauged by credit and money supply growth, more restrictive in real terms than intended. While currency depreciation achieved a realistic exchange value for the won, it nonetheless contributed to the higher rate of inflation. The fiscal stance also was tight. Widening of the actual budget deficit by 2% of GNP (see Chart 5) was less than would have been expected on cyclical grounds. The budget would have been in slight surplus had the economy maintained its previous year's real growth rate.

When the Chun government took office in August 1980, the economy was in deep recession. Despite intense pressures for a policy turnabout, the president fully supported his economic advisors in their decision to persist with restrictive policies in order to implement a fundamental shift away from chronic inflation toward a stable price level and increased reliance on markets.

If markets were to provide correct signals for resource allocation, relative prices had to be free to change and there had to be a shift away from detailed central direction of the economy. The new emphasis, embodied in the Structural Adjustment Program devised in consultation with the World Bank, is on defining basic policies and giving greater leeway for private initiatives and risk-taking to achieve the goals. The program spells out explicit measures to phase out the widespread practice of directed and subsidized credit, both to foster financial liberalization and to abolish specific incentives that concentrated investment in heavy industries. It also provides for sale to the private sector of part of the heavy-machinery sector under government ownership. In addition, the program calls for further import liberalization to raise the proportion of goods entering freely to 90%, the industrial-country average, by 1986, compared with 54% in 1977. Average tariff rates are to be lowered to 16.9% in 1988, from 22.6% at present.

Balanced growth

Despite harsh domestic costs, stabilization yielded significant balance of payments benefits from the outset. Terms-of-trade losses and higher world interest rates in 1980 could have worsened Korea's current account by 9% of GNP in the absence of adjustment, but Korea's policy initiatives limited the deterioration to a scant 2% of GNP (see Table 2), widening the deficit to only a little above $5 billion (see Chart 6). The volume of non-oil imports dropped 14%, while export volume rose 11%.

The short, sharp contraction in 1980 permitted some relaxation of policy the very next year. During 1981, fiscal policy shifted to stimulus on the order of a modest 1% of GNP. Monetary policy turned accommodative — real M2 grew by 6%, after the previous year's 3% decline. Reversing its 1980 slump, real GNP expanded 6.4% in 1981. Inflation nevertheless decelerated markedly, to 14% by year-end, thanks to productivity gains and real wage declines, later falling to as low as 2% by year-end 1983. Economic growth last year accelerated to 9%.

Korea's external balance has consistently improved since 1980. Despite some further terms-of-trade weakness and a surge in rice imports in 1981, the current account deficit narrowed to $4.6 billion. This owed much to an 18% jump in export volume. By 1983 the deficit

Chart 6

Current account balance of Korea
in billions of dollars

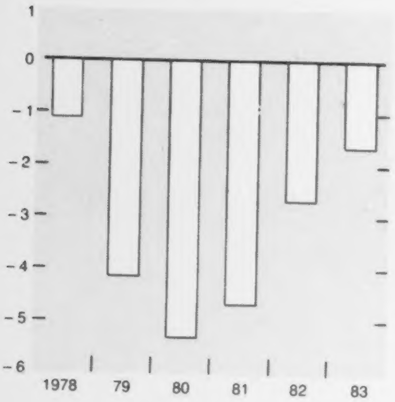


Table 3

Korea: merchandise exports by area

	Percentage shares		Percent change 1983 over 1982
	1973	1983	
Industrial countries	85.9	66.8	15.8
United States	31.7	33.6	32.8
Japan	38.5	13.9	1.3
Oil exporters	2.4	15.7	11.9
Saudi Arabia	0.4	5.9	26.6
Kuwait	0.2	2.3	117.2
Non-oil developing countries	11.6	17.5	—0.2
Asia	8.2	12.3	10.1
Hong Kong	3.7	3.3	—10.1

was down to $1.6 billion. Some of the improvement can be attributed to lower foreign interest rates and better terms of trade — 94% of Korea's exports are manufactures while the bulk of its imports are energy and raw materials. But real depreciation of the currency and restrained demand management also played a crucial role. Moreover, unlike the many LDCs that have achieved current account improvement only through output decline and import compression, Korea's external adjustment has been accomplished with output growth and export expansion.

Not only has Korea's overall export expansion been remarkable, but Korea also has diversified its markets, upgraded the technology content of its exports, and coped with protectionist barriers. The U.S. market retains its leading position in Korea's exports, and its vigorous expansion in 1983 contributed three-fourths of Korea's overall export gains last year. Successful geographic diversification is evident in the heightened importance of Korea's exports to other LDCs in Asia and the Middle East (see Table 3) but the country has had some difficulty in penetrating the Japanese market. The upgrading of technological content and competitiveness in dynamic new export products can be seen in the rapid sales growth last year of ships and oil rigs (32%), electronic and electrical products (39%), and machinery (23%) (see Table 4). By pursuing intraindustry specialization — for example, by export of components and peripherals rather than finished products — Korea has avoided some of the more sensitive international trade areas.

Korea's debt burden and the revised Five-Year Plan

Although Korea has made great strides in narrowing its current account deficit, it nonetheless has accumulated a large external debt. The official tally shows $40 billion outstanding at end-1983, ranking Korea fourth among all LDC borrowers and marking a 21% average annual growth rate of debt since 1977 (see Chart 7). Relative to the country's $31 billion export earnings in 1983, however, the level of the debt, at about 125% of export receipts, is not excessive, at least compared with the 200% or higher ratios seen in the Philippines and much of Latin America.

Korea's total debt-service ratio (including the rollover of short-term debt) was around 65% in 1983 (see Chart 7), about half the average for the major Latin American countries. Nonetheless, its debt-servicing burden ranks third among all major non-Latin borrowers, behind only Turkey and the Philippines, and is of a magnitude that warrants concern. The burden is mainly the result of a short-maturity profile. No less than $14 billion or 35% of Korea's total foreign debt is short term (see Table 5). This amount is equivalent to more than 6.5 months of merchandise imports, well above the level that would correspond to import financing by 90-120-day credit. Included as short-term debt are nearly $4 billion in so-called A accounts of foreign-bank branches in Korea — actually liabilities to their parent offices — which in practice may be of a longer-term nature than their nominal maturities suggest. However, the official debt figures make no allowances for the sizable actual or contingent foreign exchange liabilities of Korean overseas construction and trading company subsidiaries and of Korean banks' offices abroad.

Since the 1982 Mexican crisis, the critical role of excessive short-term debt in precipitating debt-servicing problems has become more widely recognized, especially where liquid-

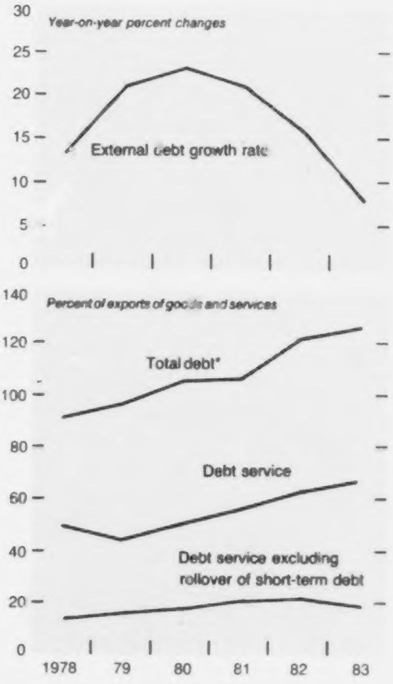
Table 4

Korea: merchandise exports by product

	Percentage shares		Percent change 1983 over 1982
	1978	1983	
Manufactures	88.7	94.4	12.9
Light manufactures	53.6	39.6	3.4
Textiles	31.6	25.0	2.1
Wood and leather	3.9	1.8	—12.3
Footwear	5.4	5.2	18.2
Other	12.6	7.6	9.7
Heavy industrial	26.4	42.4	16.4
Chemicals	3.2	6.2	8.6
Iron and steel	4.3	10.2	4.7
Machinery	2.0	4.4	23.4
Ships	6.3	15.4	31.9
Other	10.6	6.2	8.1
Electronic products	8.7	12.5	39.2
Nonmanufactures	11.3	5.6	—0.4

Chart 7

External debt of Korea



*Averages of year-end outstandings

ity also is deficient. Korea held international reserves totaling $6.9 billion at the end of December 1983 (see Table 6), enough to cover some 3-months worth of merchandise imports. This level of reserves meets generally recognized standards of prudence, although it should be noted that $2.3 billion consists of trade receivables whose quality is not fully known.

Korea is vulnerable to a deterioration in the climate for LDC lending and to the phenomenon of "regionalization" — thus, Korea's access to credit could be crimped by difficulties in such neighboring countries as the Philippines. Korean policymakers have therefore reexamined the strategy and assumptions embodied in their original Fifth Economic Plan, and recently released a revised Plan for 1984-86. Its major thrust is to foster economic growth with price stability, while lessening debt vulnerabilities. The short-term debt is to be frozen at its present $14 billion level and the growth of overall debt is to be slowed.

The revised Plan calls for virtual price stability at home based on continued monetary restraint complemented by fiscal austerity. It further assumes that a 7.5% real GNP growth target can still be achieved, but now with near-exclusive reliance on domestic savings, at least on a net basis. Anticipating intensified protectionism in export markets and keen competition from other newly industrializing countries, the projected expansion of foreign trade has been pared substantially. But in 1986 the current account is now to be in surplus by $400 million, in contrast to the deficit of $3.6 billion targeted previously. The revised Plan projects the level of external debt by end-1986 at just under $50 billion, or $15 billion less than in the original Plan. The new projected debt level would represent no more than 110% of Korea's export earnings, considerably less than at present.

Assessment

In general terms, Korea's 7.5% per annum target for real GNP growth looks reasonable, since the country has good prospects for maintaining high productivity growth over the medium term, on the order of 4% to 5% per annum. Korea's productivity still is only one-fifth the Japanese average. Increasingly sophisticated Korean management has ample scope to exploit scale economies and untapped technologies, and has the advantage of an industrious and easily trainable labor force. Besides, there remains a large pool of underutilized labor in agriculture (30% of the labor force) and in other low-productivity sectors.

Deployment of labor and capital to higher-valued uses, through private initiative and accelerated technology transfers from abroad, are the cornerstone of Korea's hopes for sustained high growth. But it is hardly a riskless course. Korean entry into the semiconductor industry provides an example. In that sector the new technology choices and the requisite affiliations with foreign firms are being made by private business without government direction or guarantee of the financial outcome. Launched with purchased technology and operated by Korean personnel repatriated from overseas, the industry can be competitive without the extensive infrastructure and feeder requirements of the earlier heavy industrial development. Even so, success in frontier technology is uncertain.

Potentially, Korean productivity gains could benefit greatly by the recent liberalization of the law governing private foreign direct investment. It is intended to shift capital inflows away from borrowing toward direct investment that brings bene-

Table 5

Korea: external debt

year-end estimates in billions of dollars

	1977	1979	1982	1983
Total	12.7	20.5	37.3	40.1
Owed to banks	5.3	12.0	23.3	24.0
Original maturity less than 1 year				
Total	3.9	6.8	14.2	14.2
Trade-related	3.0	4.8	10.3	10.3
Foreign bank branches' liabilities to head offices	0.8	2.0	3.9	3.9
Original maturity over 1 year				
Total	8.8	13.7	23.1	25.9
Loans	8.3	13.3	21.5	23.9
Bonds	0.2	0.3	0.3	0.6
IMF credit	0.3	0.1	1.3	1.4

Table 6

Korea: international reserves

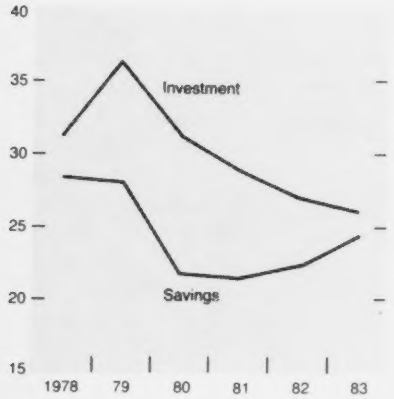
in millions of dollars

	Dec 1982	Dec 1983
Foreign currency	29	33
Bank deposits	3458	3058
Securities	1366	1318
Receivables	2033	2345
Other	98	156
Total	6984	6910

Chart 8

Korean savings and investment

percent of GNP



fits in know-how and enhanced competition. However, there must be skepticism about the practical extent of the liberalization. In the past, Korea followed the Japanese model of deemphasizing foreign direct investment, in contrast to Taiwan's positive approach. Korea's relations with direct investors have been strained at times, as evidenced by the withdrawals of such companies as Control Data and Dow Chemical. Still, investment approvals have recently increased and General Motors has just announced an increased commitment to its automotive joint venture with Daewoo Motor.

Liberalization is no less urgent in Korea's domestic credit markets and external trade practices. Although the banks have been denationalized, the state retains significant powers of appointment. While the previously discriminatory interest-rate structure is now more market-related, there remains a wide gulf between rates prevailing in the regulated and unregulated credit markets. Korean savers would benefit from the more attractive array of financial assets that liberalization would induce. Efficient risk-taking and resource allocation would be encouraged.

Steadfast implementation of Korea's import liberalization program also is crucial in spurring productivity growth through increased competitiveness of domestic industries. Korea has made significant progress already — five years ago the free ratio was only 50%, compared with 80% at present. Still, protectionism and trade frictions abroad, especially in the vital U.S. market, are important reasons for Korea to redouble its own liberalization effort. Besides, rigorous foreign competition in Korea's domestic markets can play an important role in fighting inflation at the microeconomic level, complementing the macroeconomic approach to inflation control through monetary restraint. Remembering Korea's past record of inflationary excesses, its striking recent success in achieving price stability should not be put in jeopardy by any new cosseting of domestic interest groups.

While the prospective pace of technological change and structural liberalization is difficult to assess with precision, there also are inconsistencies and questionable assumptions in the revised economic plan. For example, the target for domestic savings during 1984-86 has been set at over 27% of GNP. Given that 1983's savings were hardly more than 24% (see Chart 8), this target looks overambitious: while private savings are supposed to benefit from the provision of more attractive financial assets for households and from increased retention of business profits, the outcome stands in doubt; likewise problematic is the intent to raise public-sector current savings by almost 1% of GNP by 1986 through a budget policy that couples income-elastic revenues with expenditure restraint using zero-base budgeting. The freeze on this year's current-services spending is, however, an encouraging start.

Also questionable are the revised Plan's investment assumptions. The investment ratio, including inventories, is to average at least 4 percentage points below that assumed in the original Plan for 1984-86, mostly to contain the growth in foreign debt. Continuous drawdown of inventories is supposed to permit a sustained pace of fixed investment compatible with unchanged output growth. True, in 1983 an above-target 9% real GNP growth was achieved despite a substantial shortfall in total investment (less than 27% of GNP, compared with the planned 31%), thanks to fuller utilization of capacity and inventory drawdown in excess of 3% of GNP. But despite the similar drawdown in the previous year, inventory shrinkage cannot be consistent with high output growth indefinitely.

Doubts about the new Plan's projected savings-investment balance are paralleled by uncertainties over Korea's balance of payments outlook. Replenishment of depleted inventories could entail higher imports than the revised Plan projects. More seriously, the continued fragility of the global economic environment, the risk of higher interest rates, increased protectionism abroad, or a slower-than-expected fall in the import content of production could all limit Korea's domestic expansion, given the new commitment to contain the growth of foreign debt.

It must also be realized that the country's gross borrowing needs over the next four to five years will exceed simple coverage of the current account deficit and rollover requirements. Korea's export strategy calls for fast growth in exports of heavy industrial products—ships, for example. These sales are customarily made on credit. While Korea may be able to sell off some of the promissory notes issued by ship purchasers, Korea's continued success in shipbuilding is prone to require ever larger dependence on international credit markets, often to relend at concessional rates. Thus, the more success it has in exporting, the higher are Korea's borrowing requirements.

Korea's commitment to contain the rise in its foreign debt is eminently prudent. While an academic argument can be mounted that such a dynamic country should be a net capital importer in the interest of efficient international allocation of world capital, the paramount practical consideration must be to safeguard the country's high credit market standing. No matter how satisfactory the country's export and current account performance, confidence factors are crucial to credit markets. Their judgment will hinge significantly on their perceptions of the resolve with which Korea pursues its liberalization program and of the country's willingness to moderate domestic expansion in the event that external performance proves less robust than now expected. The markets also are necessarily concerned for Korea's political future. Following last fall's bombing in Rangoon, relations between the Republic and North Korea reached a postarmistice low. It is encouraging that tentative steps are now being taken to defuse tensions.

Nevertheless, it remains vital that Korea maintain its conservative approach to new foreign borrowing and that it move forthrightly to formulate a credible program to fund a major fraction of its large short-term debt. In these ways, Korea can most effectively alleviate its vulnerability to debt-servicing troubles.

Lessons

Last year Korea achieved a long-sought goal: high economic growth, virtual price stability, and an improving current account balance. While some aspects of its experience are country specific, several general lessons may be drawn.

First, early and decisive implementation of adjustment policies — while reserve holdings remain adequate — is critically important to forestall a liquidity or debt-servicing crisis. There are times when gradualism is not enough. Korea's 1980 experience demonstrates that with strong political commitment shock therapy can yield quick and major benefits. Capital flight was averted, and it was possible to resume economic growth in no more than a year. In addition, to retain the confidence of creditors, Korea's example shows the advisability of involving the IMF and the World Bank early in the process to secure financial and technical support.

Second, restrained demand management must play a key role in restoring external equilibrium, since an unsustainable current account deficit is the manifestation of excessive domestic absorption relative to domestic production. Demand restraint is most readily achieved where the tax system is broad based and where the scope of public-sector activities and credit demands do not inhibit monetary control. Without effective monetary restraint inflation cannot be contained successfully. Exchange rate policy should be used for balance of payments adjustment, not for suppressing inflation. And the costs of disinflation are minimized if restrictive union practices do not limit flexible determination of wages.

Third, there is more to successful adjustment than the mere restoration of macroeconomic balance. Korea's inflationary and directed industrial policies of the 1970s could not cope well with the adversities following the second oil shock. Industrial targeting led to a massive waste of resources. Korea's renewed economic progress owes much to the removal or lessening of exchange and price controls and of interest rate distortions that deter savings and misallocate resources.

Finally, an outward-looking development strategy such as Korea is pursuing will best achieve sustainable external payments balance, with output growth and increased exports rather than import compression. Although autarchy can insulate an economy to some degree from external adversity, experience in Latin America and elsewhere reveals its long-term pitfalls. Under an open strategy, flexibility and efficiency are spurred by the competitive pressures of both domestic and import liberalization and by technology inflows from abroad. Moreover, notwithstanding some short-run balance of payments cost, import liberalization by developing countries serves the important objective of defusing the protectionist tendencies in industrial countries that are now the most serious obstacle to sustained global economic progress.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1983																
February	111.0	100.5	105.9	96.8	91.9	107.0	92.6	88.2	103.6	91.0	106.2	81.9	110.3	98.6	98.0	81.1
March	112.0	100.9	105.8	89.3	90.8	108.9	91.3	86.4	104.8	92.2	106.5	80.5	108.4	98.7	97.8	81.2
April	112.5	100.4	106.4	87.5	87.7	109.1	91.3	90.2	104.4	91.5	105.1	80.1	109.9	98.7	98.7	81.5
May	112.2	100.6	107.9	88.2	86.8	108.5	90.8	92.9	104.0	90.8	104.8	79.5	110.6	97.5	99.3	81.7
June	114.3	100.8	106.6	89.4	86.4	107.6	90.7	93.6	103.4	90.2	104.6	78.3	110.6	96.2	99.5	82.2
July	115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August	117.0	101.2	106.2	91.5	85.6	106.5	89.6	94.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November	116.5	100.9	110.7	94.8	85.1	107.1	88.3	92.8	103.2	88.4	104.4	75.9	112.8	94.6	100.9	82.7
December	118.0	100.4	112.1	94.2	84.7	106.8	88.0	91.8	102.8	88.2	104.1	75.8	113.8	94.0	99.5	83.1
1984																
January	119.1	100.5	113.3	95.5	84.1	106.5	87.6	91.5	102.6	87.7	103.7	76.3	113.8	93.6	99.2	83.4
February	117.3	100.2	112.0	97.2	84.7	108.0	87.0	91.4	103.3	88.2	104.3	77.1	112.3	94.0	99.0	82.9
January 6	118.6	100.4	113.4	94.5	84.4	106.6	87.9	91.5	102.7	87.8	104.0	76.0	113.5	93.9	99.1	83.2
13	119.4	100.4	113.4	95.7	84.0	106.3	87.7	91.4	102.5	87.8	103.7	75.9	114.1	93.5	99.0	83.3
20	118.9	100.6	113.3	94.9	84.2	106.5	87.6	91.7	102.8	87.7	103.6	76.5	114.1	93.6	99.5	83.2
27	119.2	100.7	113.2	95.9	84.1	106.4	87.5	91.4	102.5	87.7	103.5	76.8	113.9	93.3	99.3	83.6
February 3	118.7	100.5	112.9	96.7	84.3	106.9	87.3	91.4	102.7	87.7	103.8	77.0	113.6	93.6	99.2	83.2
10	118.2	100.5	112.5	97.1	84.5	107.6	87.1	90.9	103.2	88.0	104.1	77.1	112.8	94.1	99.4	82.3
17	117.2	100.3	112.0	97.8	84.8	108.4	87.1	91.3	103.4	88.5	103.4	77.0	112.1	94.1	99.1	82.7
24	116.7	99.9	111.5	97.5	84.8	108.5	87.0	91.6	103.6	88.6	104.6	77.1	111.7	94.0	99.0	82.9

Real effective exchange rates

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.5	99.6	103.1	93.1	102.2	103.5	103.5	99.2	100.2	107.5	100.0	102.0	98.7	103.7	96.4	101.3
1981	100.7	100.0	104.7	102.8	100.2	97.4	98.7	101.9	99.1	100.3	97.7	99.1	98.8	99.3	101.2	102.1
1982	109.8	100.4	92.3	104.1	97.7	99.1	97.8	98.9	100.7	92.1	102.4	99.0	102.5	96.9	102.4	96.5
1983	112.4	102.9	96.4	99.7	95.8	99.2	99.8	94.5	101.5	91.5	101.7	89.2	105.1	98.6	101.0	91.0
1983																
February	110.2	101.4	96.8	103.7	98.4	99.8	99.9	90.8	102.5	92.8	103.6	91.5	104.9	100.9	100.0	88.6
March	110.6	102.7	96.5	96.3	97.6	101.1	99.7	89.2	103.8	94.0	103.5	90.3	103.0	101.0	99.3	88.7
April	110.4	103.0	96.1	94.6	96.1	100.9	100.1	93.2	102.5	93.0	101.7	90.4	103.9	100.9	100.3	89.3
May	110.3	103.3	96.9	95.4	94.6	100.1	100.2	96.2	101.6	92.7	101.3	90.3	104.1	100.0	101.4	90.0
June	112.6	103.2	95.3	96.6	94.3	99.3	100.0	96.9	101.0	92.3	101.0	89.4	104.0	98.4	100.8	91.2
July	113.3	103.7	95.2	97.2	95.0	98.3	100.1	96.4	101.3	91.8	101.3	87.7	104.7	97.2	101.2	92.1
August	115.2	103.8	93.6	99.3	94.4	98.1	98.9	97.1	100.6	91.2	100.9	87.9	105.7	95.7	100.9	92.8
September	113.9	104.3	94.7	100.7	94.9	98.0	99.3	97.3	100.4	90.5	100.9	88.1	105.5	97.4	102.3	92.4
October	113.2	103.0	97.2	102.0	95.5	98.8	99.4	94.9	101.3	90.0	100.8	87.6	106.0	97.8	102.5	92.1
November	114.3	103.1	97.3	103.8	95.5	97.7	99.6	95.3	100.7	89.4	100.5	88.3	105.7	97.1	103.1	93.1
December	115.4	102.9	98.4	103.4	95.6	97.4	99.7	94.3	100.3	88.8	99.8	88.7	106.6	95.5	101.4	93.9
1984																
January	116.4	102.9	99.2	105.1	95.5	96.9	99.8	94.4	100.1	88.0	99.1	89.8	106.4	95.0	100.8	94.4
February	114.4	102.5	97.9	107.2	96.8	98.0	99.6	94.2	100.9	88.2	99.4	91.2	104.9	95.3	100.3	94.2

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1960	1981	1982	1983							1984
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Eurodollar											
overnight	19.25	12.87	9.25	9.50	9.75	9.38	9.25	9.25	9.00	9.50	9.25
one month	19.12	13.31	9.13	9.50	9.81	9.88	9.38	9.44	9.69	9.69	9.50
three months	17.55	13.75	9.19	9.69	10.19	10.25	9.50	9.63	9.75	9.81	9.63
six months	16 37	14.81	9.50	9.94	10.63	10.63	9.69	9.69	9.94	10.06	9.88
twelve months	14.87	14.75	9.63	10.06	10.75	10.94	10.00	9.94	10.31	10.38	10.19
Euro-Canadian dollar											
one month	17.50	15.37	10.00	8.88	9.00	8.88	9.06	8.94	9.25	9.13	9.63
three months	16.88	15.37	10.00	9.19	9.38	9.38	9.13	9.19	9.38	9.50	9.63
six months	15.37	16.37	10.13	9.69	9.88	9.88	9.38	9.38	9.56	9.75	9.88
twelve months	14.00	16.37	10.25	9.94	10.13	10.44	9.75	9.69	9.75	10.00	10.06
Euro-French franc											
one month	11.12	15.75	23.00	12.38	12.13	13.00	12.75	12.25	12.25	12.13	12.13
three months	11.75	17.00	24.00	14.94	13.50	15.00	14.31	12.88	13.19	12.19	13.00
six months	12.25	18.00	22 00	16.69	15.25	16.75	15.81	14.00	14.13	12.31	13.75
twelve months	12.87	18.25	19.75	18.00	16.75	16.88	16.19	14.88	14.69	12.63	14.38
Euromark											
one month	8.87	10.44	5.88	4.94	4.81	5.25	5.56	5.56	6.19	5.25	5.69
three months	8 87	10.50	5.88	5.19	5.06	5.50	5.75	5.81	6.19	5.88	5.88
six months	8.87	10.56	5 94	5.50	5.50	5.94	5.88	5.81	6.19	6.13	6.19
twelve months	8.93	10.25	6.00	5.94	5.94	6.44	6.19	6.13	6.44	6.38	6.38
Euro-Dutch guilder											
one month	8.87	10.75	5.13	4.94	5.44	6.00	5.94	5.75	6.00	5.81	5.88
three months	9.31	10.75	5.19	5.38	5.63	6.25	6.19	6.06	6.19	6.00	5.94
six months	9.37	10.75	5.38	5.88	6.00	6.44	6.25	6.19	6.31	6.25	6.13
twelve months	9.62	10.75	5.63	6.13	6.31	6.75	6.56	6.50	6.63	6.38	6.44
Euro-Swiss franc											
one month	6.00	8 87	2.81	4.56	4.69	4.19	3.69	3.50	4.06	3.38	3.00
three months	6.00	9.25	3.25	4.63	4.75	4.44	4.13	4.13	4.06	3.75	3.44
six months	5.75	9.25	3.44	4.75	4.88	4.81	4.31	4.19	4.19	3.94	3.81
twelve months	5.50	8.50	3.44	4.69	4.81	4.94	4.38	4.31	4.38	3.94	3.94
Eurosterling											
one month	14.75	15.37	10.56	9.63	9.56	9.56	9.63	9.19	9.06	9.13	9.19
three months	14.75	15.69	10.44	9.63	9.81	9.75	9.56	9.25	9.25	9.31	9.38
six months	14.25	15.69	10.31	9.88	10.25	10.13	9.56	9.38	9.44	9.50	9.56
twelve months	14.00	15.37	10.31	10.06	10.50	10.50	9.81	9.69	9.69	9.81	9.88
Euroyen											
one month	9.12	6.12	6.75	6.44	6.44	6.69	6.69	6.13	7.25	6.25	6.13
three months	9.25	6.12	6.75	6.50	6.50	6.63	6.69	6.31	6.75	6.31	6.31
six months	9.62	6.87	7 10	6.50	6.56	6.63	6.69	6.31	6.69	6.38	6.31
twelve months	9.37	6.87	6.81	6.50	6.56	6.75	6.69	6.44	6.69	6.44	6.44

International bond issues – by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1983	1984		Jan-Feb	
				Dec	Jan	Feb	1984	1983
Eurobonds	**31 616**	**51 645**	**48 447**	**1 277**	**6 679**	**7 093**	**13 772**	**8 601**
U.S. dollar	26 830	43 959	38 406	760	5 771	5 635	11 406	6 779
Canadian dollar	634	1 201	1 039	56	112	16	128	188
German mark	1 277	2 588	3 817	200	302	462	764	947
British pound	501	748	1 915	108	281	408	689	14
Japanese yen	368	374	212	—	—	—	—	85
European composite unit	309	1 980	2 019	62	125	400	525	363
Other	1 697	795	1 039	91	88	172	260	225
Foreign bonds	**21 369**	**26 397**	**27 386**	**1 821**	**1 807**	**2 324**	**4 131**	**6 104**
U.S. dollar	7 552	5 946	4 400	700	—	—	—	1 014
German mark	1 310	2 952	2 671	36	161	301	462	440
Dutch guilder	481	956	1 053	—	63	158	221	225
British pound	746	1 214	520	22	56	178	234	99
Swiss franc	8 285	11 432	14 299	762	1 236	1 210	2 446	3 607
Japanese yen	2 457	3 418	3 772	297	278	171	449	698
Other	538	479	671	4	13	306	319	21
Total	**52 985**	**78 042**	**75 833**	**3 098**	**8 486**	**9 417**	**17 903**	**14 705**

International bond issues — by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	*1982*	*1983*	*1983*	*1984*		*Jan-Feb*	
				Dec	*Jan*	*Feb*	*1984*	*1983*
Industrial countries	**40 861**	**63 062**	**59 875**	**2 464**	**7 102**	**7 932**	**15 034**	**12 456**
Australia	991	2 250	2 394	80	181	109	290	287
Austria	1 557	1 668	1 265	100	216	161	377	156
Belgium	527	211	1 153	100	—	—	—	51
Canada	10 648	11 979	7 411	792	748	367	1 115	1 549
Denmark	695	1 269	1 719	72	600	162	762	180
Finland	672	815	866	4	145	50	195	206
France	3 156	8 456	6 405	250	522	1 319	1 841	1 581
Germany	279	1 101	3 095	79	281	473	754	656
Ireland	517	625	959	—	—	—	—	122
Italy	1 108	2 214	1 565	36	250	46	296	230
Japan	6 928	8 397	13 966	400	1 754	2 043	3 797	2 998
Netherlands	630	894	946	65	106	292	398	62
New Zealand	1 107	1 375	455	—	—	86	86	184
Norway	530	832	667	26	100	25	125	186
Portugal	30	206	76	—	—	21	21	46
South Africa	92	374	548	105	—	64	64	117
Spain	444	747	1 449	43	272	21	293	292
Sweden	2 050	2 479	3 755	85	176	546	722	1 769
United Kingdom	1 408	1 201	1 398	50	300	835	1 135	124
United States	6 770	14 538	7 486	90	1 415	1 013	2 428	1 319
Yugoslavia	—	—	—	—	—	—	—	—
*Other**	722	1 431	2 297	87	36	299	335	341
Developing countries	**4 886**	**5 003**	**2 473**	**21**	**466**	**47**	**513**	**87**
Latin American countries	**3 658**	**2 480**	**71**	—	—	—	—	—
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—	—	—
Mexico	3 012	1 919	—	—	—	—	—	—
Panama	25	—	21	—	—	—	—	—
Peru	25	—	—	—	—	—	—	—
Venezuela	291	385	—	—	—	—	—	—
*Other***	—	50	50	—	—	—	—	—
Asian countries	**1 068**	**2 075**	**2 190**	**21**	**426**	**47**	**473**	**87**
Hong Kong	70	40	50	—	—	—	—	—
India	271	225	60	—	—	—	—	—
Indonesia	97	412	328	—	—	—	—	—
Korea	323	172	556	21	55	20	75	70
Malaysia	—	807	831	—	350	—	350	—
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	—	—	—	—
Thailand	93	63	255	—	21	27	48	17
Other	85	181	40	—	—	—	—	—
Middle Eastern and African countries	**160**	**448**	**212**	—	**40**	—	**40**	—
Algeria	—	—	—	—	—	—	—	—
Egypt	—	75	—	—	40	—	40	—
Israel	117	200	135	—	—	—	—	—
Ivory Coast	—	—	—	—	—	—	—	—
Morocco	—	—	—	—	—	—	—	—
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	—	—	—	—	—
Centrally planned countries	**75**	**65**	**75**	—	—	—	—	—
China	—	65	50	—	—	—	—	—
Hungary	20	—	—	—	—	—	—	—
Poland	—	—	—	—	—	—	—	—
*Other****	55	—	25	—	—	—	—	—
International organizations****	**7 163**	**9 912**	**13 410**	**613**	**918**	**1 438**	**2 356**	**2 162**
Total	**52 985**	**78 042**	**75 833**	**3 098**	**8 486**	**9 417**	**17 903**	**14 705**

*Includes multinational organizations.
**Includes unallocated.
***Includes COMECON Institutions.
****Includes regional development organizations.

Eurocurrency bank credits – by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	1982	1983	1983	1984		Jan-Feb	
				Dec	Jan	Feb	1984	1983
Industrial countries	**86 022**	**42 471**	**38 406**	**2 780**	**9 532**	**2 046**	**11 578**	**6 946**
Australia	1 680	4 721	2 911	535	91	45	136	580
Belgium	360	1 172	883	—	—	—	—	—
Canada	4 112	3 838	967	—	640	—	640	—
Denmark	1 661	789	1 586	—	8	10	18	1 300
Finland	463	631	283	55	—	—	—	—
France	3 912	5 703	1 708	—	133	—	135	450
Greece	1 039	770	1 085	—	—	—	—	20
Ireland	1 361	401	764	143	—	—	—	41
Italy	6 030	3 657	2 936	58	204	107	311	452
Norway	713	1 769	1 210	600	—	—	—	—
Portugal	1 590	1 388	899	99	—	29	29	—
South Africa	287	1 479	752	—	—	50	50	550
Spain	3 242	1 849	2 996	323	154	98	252	829
Sweden	1 867	649	3 188	—	—	—	—	1 600
United Kingdom	747	1 635	1 328	59	10	650	660	39
United States	54 784	6 516	12 948	908	8 142	1 050	9 192	600
Yugoslavia	684	719	615	—	—	—	—	—
*Other**	1 014	1 374	1 347	—	150	7	152	35
Developing countries	**45 264**	**41 519**	**32 883**	**183**	**7 718**	**1 125**	**8 843**	**14 495**
Latin American countries	**30 152**	**26 719**	**15 316**	**45**	**6 530**	**170**	**6 700**	**9 716**
Argentina	2 534	1 565	1 750	—	—	—	—	—
Brazil	5 751	5 716	4 475	—	6 500	—	6 500	4 450
Chile	2 204	1 194	1 319	—	—	—	—	—
Colombia	1 030	741	459	—	—	170	170	—
Ecuador	934	815	431	—	—	—	—	—
Mexico	7 530	7 953	5 138	—	—	—	—	5 000
Peru	1 407	1 069	500	—	—	—	—	16
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	948	489	1 007	45	30	—	30	13
Asian countries	**10 288**	**8 403**	**8 824**	**100**	**1 020**	**450**	**1 470**	**3 629**
India	377	284	809	—	50	—	50	461
Indonesia	725	1 250	1 467	15	600	15	615	1 126
Korea	2 824	2 923	3 250	20	105	298	403	830
Malaysia	1 725	1 909	950	30	—	—	—	560
Pakistan	350	455	365	—	—	—	—	73
Philippines	1 257	635	815	—	—	—	—	333
Thailand	692	268	349	35	—	40	40	—
Other	1 674	646	819	—	265	97	362	246
Middle Eastern and African countries	**4 824**	**6 397**	**8 743**	**38**	**168**	**505**	**673**	**1 150**
Algeria	—	26	1 934	—	—	—	—	—
Egypt	63	353	335	—	—	—	—	—
Morocco	774	326	294	—	20	75	95	25
Nigeria	1 802	2 042	1 775	—	—	—	—	33
Turkey	100	277	1 078	—	—	353	353	140
United Arab Emirates	363	93	876	—	—	—	—	690
Other	1 223	2 842	2 451	38	148	77	225	262
Centrally planned countries	**1 791**	**765**	**1 212**	**200**	**150**	**302**	**452**	**200**
East Germany	470	8	392	—	—	—	—	—
Hungary	550	340	683	200	—	302	302	200
Soviet Union	25	374	68	—	150	—	150	—
*Other****	376	—	59	—	—	—	—	—
International organizations****	**302**	**150**	**1 321**	—	—	—	—	21
Total	**133 379**	**84 905**	**73 822**	**3 163**	**17 400**	**3 473**	**20 873**	**21 212**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977	1978	1979	1980	1981	1982		1983		
						Sep	Dec	Mar	Jun	Sep
Gross market size	740	949	1 233	1 524	1 861	2 017	2 057	2 086	2 056	2 133
Nonbanks	135	174	245	327	428	468	474	472	489	515
Official monetary institutions	100	115	145	150	132	105	90	90	84	90
Other banks	505	660	843	1 047	1 301	1 444	1 493	1 524	1 483	1 528
Eurodollars as % of gross	76	74	72	75	78	81	79	80	80	80

Central bank discount rates

at or near end of month

	1980	1981	1982	1983				Current	
	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Feb 29 1984	effective since
United States	13 00	12 00	8.50	8 50	8.50	8 50	8.50	8.50	Dec 15, 82
Canada	17.36	14.66	10.05	9.42	9.42	9.49	9.96	10.04	Feb 23, 84
Austria	6.75	6.75	4.75	3.75	3.75	3.75	3.75	3.75	Mar 18, 83
Belgium	12.00	15.00	11.50	11.00	9.00	9 00	10.00	11.00	Feb 16, 84
Denmark	11.00	11.00	10.00	8.50	7.50	7.50	7.00	7.00	Oct 27, 83
Finland	9.25	9 25	8.50	8.50	8.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	7.50	5 00	4.00	4.00	4.00	4.00	4.00	Mar 18, 73
Ireland	12.75	17 15	14 35	14.35	13.80	12 20	11.50	11.50	Nov 11, 83
Italy	16.50	19 00	18.00	18.00	17.00	17.00	17.00	10.00	Feb 16, 84
Netherlands	8.00	9 00	5.00	3.50	4.50	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	9 00	9.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	18.00	19.00	23 00	23.00	25.00	25.00	25.00	Aug. 83
Spain	8.00	8.00	8.00	8.00	8.00	8 00	8.00	8.00	Jul 26, 77
Sweden	12 00	11 00	10.00	9.00	8.50	8.50	8.50	8.50	Apr 8, 83
Switzerland	3.00	6.00	4.50	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.00	14.37	10.00	10.50	9.56	9.50	9.00	9.00	Oct 4, 83
Japan	7.25	5.50	5.50	5.50	5.50	5.50	5.00	5.00	Oct 22, 83
New Zealand	14.00	13 00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	7.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 12, 81
Argentina	87.01	98.50	128.54	145.29	161.87	183.75	183.75	183.75	Sep 5, 83
Korea	15.01	10.50	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	4.00	4.00	4 00	4.00	4.00	4 00	4.00	4.00	May 19, 78
Singapore	10 50	9 50	7 00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	13 50	14.50	12.50	11.50	11.50	11.50	13.00	13.00	Dec 9, 83
Venezuela	13.00	14.00	13.00	13.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983							1984
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	18.90	12.37	8.95	8.98	9.37	9.56	9.45	9.48	9.34	9.47	9.56
Canada	15.61	14.53	10.63	9.45	9.31	9.35	9.25	9.35	9.43	8.78	9.60
Austria	11.50	7.50	6.00	4.50	5.00	5.00	5.50	5.63	5.63	5.75	5 88
Belgium	9.68	12.78	9.43	7.68	7.49	7.61	6.38	6.89	8.58	8.65	8.03
Finland	12.50	11.30	11.50	15.00	15.00	15.00	16.67	16.95	16.70	16.70	17.50
France	10.87	15.46	12.88	12.61	12.40	12.54	12.56	12.35	12.37	12.27	12.39
Germany	9.13	10.65	6.07	5.05	5.04	5.07	5.43	5.53	5.59	5.60	5.61
Ireland	13.31	16.88	14.54	13.62	13.75	12.50	12.63	11.00	12.25	12.19	12.12
Italy	17.50	20.63	19 00	17.80	17.75	17.88	17.69	17.75	17.79	17.88	17.91
Netherlands	8.37	10.67	5.31	5.06	5.29	5.77	5.68	5.82	5.70	5.84	5.77
Norway	11.00	18.60	11.00	12.00	12.00	12.70	12.30	13.50	13.00	13.00	12.80
Spain	16.74	18.73	20.30	20.10	21.05	23.33	19.85	20.27	18.56	16.41	10 16
Sweden	11.41	13.82	8.63	11.05	11.00	10.15	11.30	12.00	11.97	11.48	11.36
Switzerland	5.75	3.38	1.25	3.00	3.00	2.00	2.00	1.75	1.63	1.88	1 00
United Kingdom	13 00	9.13	6.70	6 63	6.60	6.31	7.30	7.81	7.06	7.77	7.31
Australia	9.51	12 84	11.04	10.87	9.84	10.13	9.80	9.03	9.31	4.56	7.09
Japan	9.49	6.70	6 92	6 20	6.39	6.46	6.53	6.43	5.99	6.47	6 05
South Africa	5.60	12.34	12.90	10.91	12.29	13.62	13.43	13.66	14.24	15.63	16.17
Argentina	70 84	84.93	155.32	170.43	210.04	106.40	178 30	178.30	178.30	178.30	138 61
Hong Kong	14 05	10.75	9.13	12.38	7.00	6.81	13.25	18.00	10.00	13.90	7.25
Korea	14 82	14.40	13.84	13.40	12.70	12.70	12 80	12.80	12.90	11.40	11.30
Philippines	15.70	14.70	16.12	13.05	13.59	15.56	16.54	24.23	18 96	31.18	n.a.
Singapore	10.23	3.96	11.45	5.96	8.08	6.33	6.51	7.02	7.23	7.05	6.92

Treasury bill rates

bond equivalent yields, at or near end of month

	1980	1981	1982	1983							1984
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	14.87	11.90	8.15	9.02	9.50	9.52	9.05	8.92	9.05	9.28	9.20
Canada	17.01	14.41	9.80	9.17	9.24	9.32	9.24	9.24	9.38	9.71	9.73
Belgium	12.75	16.00	12.25	9.50	9.25	9.25	9.25	9.50	10.85	10.85	10.85
Ireland	12.84	17.35	14.70	12.95	13.09	13.01	12.12	11.96	11.66	11.63	11.80
Italy	16.87	21.36	19.11	17.35	17.35	17.24	17.18	17.08	17.05	16.95	15.74
Netherlands	8.00	9.75	5.63	4.63	5.38	6.00	5.88	5.63	5.63	5.63	5.75
Spain	17.20	15.83	16.96	21.52	22.53	22.93	22.24	20.74	19.08	17.61	n.a.
Sweden	12.87	9.20	12.90	11.00	11.60	11.55	12.20	12.10	12.10	11.75	11.10
United Kingdom	13.45	15.31	9.90	9.29	9.40	9.57	9.21	8.89	9.08	9.08	9.08
Australia	12.17	13.27	9.39	11.93	10.59	10.96	10.34	9.38	9.32	8.54	9.43
Japan	5.93	5.42	5.42	5.42	5.42	5.42	5.42	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	11.25	12.00	7.80	7.80	7.80	7.80	7.80	7.80	7.80
South Africa	6.31	14.55	14.62	13.96	14.46	16.19	14.91	15.66	17.47	18.43	18.55
Korea	16.35	16.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Mexico	27.73	33.33	57.44	62.36	61.10	57.89	56.17	54.50	53.85	n.a.	n.a.
Philippines	12.74	13.40	14.53	14.00	14.03	14.48	14.71	15.04	15.56	15.98	n.a.
Singapore	6.77	3.03	2.74	2.61	2.59	2.58	2.65	2.63	2.62	2.59	2.67

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1980	1981	1982	1983							1984
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	17.62	12.78	8.81	9.34	9.57	9.52	9.36	9.26	9.31	9.75	9.36
Canada	17.50	15.25	9.95	9.45	9.40	9.50	9.40	9.40	9.60	9.87	9.85
Belgium	13.10	16.00	12.35	9.50	9.25	9.25	9.25	9.60	11.00	11.00	9.88
France	11.56	15.25	12.75	12.50	12.13	12.25	12.50	12.19	12.31	12.19	12.25
Germany	10.20	10.50	6.20	5.55	5.50	5.85	5.80	6.15	6.25	6.30	6.10
Ireland	13.63	18.50	15.75	13.63	13.88	13.38	12.69	12.53	12.38	12.19	12.25
Italy	17.37	21.00	19.00	17.50	17.50	17.60	17.50	17.63	17.88	17.88	17.88
Netherlands	9.37	11.00	5.25	5.38	5.69	5.31	6.25	6.13	6.31	6.00	5.94
Portugal	11.00	13.80	15.04	17.00	17.00	20.24	22.30	23.00	24.17	24.11	24.06
Spain	17.40	15.52	16.55	20.76	22.48	24.04	22.06	22.19	20.29	18.48	17.30
Switzerland	7.50	10.12	3.88	4.81	5.00	4.75	4.25	4.25	4.25	3.88	3.63
United Kingdom	14.75	15.69	10.50	9.75	10.06	9.75	9.56	9.31	9.25	9.31	9.38
Australia	13.00	16.00	10.65	13.85	12.10	12.20	11.15	11.00	10.60	9.50	11.00
Japan	9.80	6.30	6.80	6.47	6.59	6.61	6.62	6.30	6.42	6.42	6.30
New Zealand	14.25	16.05	16.75	16.75	12.75	10.25	10.00	10.75	12.00	12.10	13.85
South Africa	7.12	15.47	15.26	14.88	14.94	16.61	16.45	16.94	18.19	19.12	19.07
Chile	26.79	34.54	71.44	25.34	25.34	23.87	25.34	25.34	25.34	22.42	19.56
Hong Kong	17.69	14.18	10.13	12.88	9.88	8.94	12.75	16.88	11.50	12.84	11.38
Indonesia	12.54	14.48	18.50	16.50	14.50	15.00	16.50	15.00	15.00	19.50	19.00
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.41	9.50	8.50	7.60	7.85	8.40	8.10	8.20	8.65	9.80	9.47
Philippines	15.01	17.61	15.91	15.06	15.96	15.62	16.49	18.26	17.34	15.60	n.a.
Singapore	14.12	7.81	8.69	7.81	7.88	7.38	7.38	7.50	7.63	8.44	7.75
Taiwan	14.49	10.94	9.94	8.69	8.98	9.28	8.38	7.82	7.26	7.65	9.22
Thailand	16.55	14.29	12.25	11.50	12.00	12.75	14.00	14.25	14.50	16.00	16.50

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983							1984
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	16 25	12.62	8.25	9.18	9.65	9.65	9.20	9.30	9.30	9.70	9.40
Canada	17.00	15.20	9.85	9.35	9.35	9.45	9.35	9.35	9.50	9.82	9.80
Austria	11.25	9.63	6.25	5.00	5.31	5.56	6.06	6.31	6.38	6.50	6.50
Belgium	12.63	15.50	12.25	9.25	9.13	9.25	9.50	9.38	11.25	11.25	10.88
Denmark	10.00	10.00	9.00	6.50	6.50	6.50	6.50	6.00	6.00	6.00	n.a.
Finland	5.00	5.00	4.25	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	11.25	9.16	8.24	8.24	8.24	7.30	7.80	7.70	7.70	7.66	7.72
Germany	8.00	9.50	6.00	4.90	4.90	4.90	5.63	5.60	5.80	5.90	5.65
Ireland	13.63	18.38	15.25	13.25	13.50	13.13	12.25	12.50	12.25	11.75	11.88
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	9.50	11.00	5.38	5.50	5.63	5.25	6.13	6.06	6.19	6.13	5.94
Norway	11.00	12.75	13.50	12.50	12.50	12.50	12.50	12.50	12.50	12.75	13.00
Portugal	12.00	14.00	15.00	19.50	19.50	21.50	21.50	21.50	21.50	21.50	21.50
Spain	4.50	11.78	12 53	12.47	12.28	12.28	12.24	12.08	12.50	n.a.	n.a.
Sweden	14.00	15.00	15.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
Switzerland	7.50	8.75	3.00	4.25	4.00	3.75	3.75	3.50	3.50	3.50	3.25
United Kingdom	14.87	15.69	10.31	n.a.	10.06	9.78	9.50	9.25	9.22	9.31	9.38
Australia	12.71	15.65	10.20	14.84	12.05	11.88	10.56	10.96	10.35	10.40	11.25
Japan	9.00	6.50	7.00	6.67	6.80	6.83	6.88	6.45	6.60	6.50	6.52
New Zealand	13.50	15.50	16.50	16.50	10.00	9.00	9.00	9.50	10.75	11.50	13.75
South Africa	7.87	14.75	15.25	14.75	14.95	16.62	17.00	17.00	18.43	20.13	19.45
Argentina	72.00	86.76	103.42	108.28	127.75	139.92	176.41	176.41	176.41	176.41	139.91
Chile	39.45	36 87	57.72	24.60	24.31	24.75	25.19	25.19	25.19	22.28	19.74
Hong Kong	13.00	12.50	7.50	10.50	8.50	8.50	12.00	10.00	9.00	9.00	7.00
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	6.00
Malaysia	8.60	10.00	8.40	6.80	6.80	6.80	7.15	7.15	7.60	7.75	7.75
Mexico	26.15	31.82	52.54	60.03	59.25	57.33	56.38	55.28	54.88	54.70	54.50
Philippines	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	13.19	7.50	8.25	7.01	7.44	6.88	6.81	7.07	7.19	7.44	7.13
Taiwan	10.25	10.75	7.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Thailand	9.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	16.00	14.75	15.50	14.00	13.50	13.00	12.50	12.00	12.00	12.00	11.50

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							1984
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	11.46	14.33	10.61	11.20	11.95	11.77	11.65	11.85	11.89	12.00	11.72
Canada	12.69	15.27	11.69	11.56	12.03	12.34	11.76	11.73	11.80	12.02	11.92
Austria	9.62	10.37	8.81	8.14	8.18	8.31	8.32	8.16	8.06	8.02	n.a.
Belgium	13.04	13.99	12 66	11.53	11.42	11.46	11.39	11.32	11.75	11.89	11.97
Denmark	19.98	20.91	20.14	15.38	15.56	14.92	14.19	13.95	14.22	12.96	n.a.
Finland	10.42	10.98	10.64	10.55	10.58	11.20	10.97	11.19	11.16	11.16	11.17
France	14.31	16.44	15.40	14.52	14.04	13.96	14.03	14.15	14.12	13.96	13.76
Germany	9.19	9.71	7.90	8.11	8.27	8.55	8.43	8.30	8.34	8.38	8.33
Ireland	15.63	18.28	14.54	13.61	13.81	13.60	13.72	13.82	13.72	14.25	n.a.
Italy	16.23	21.39	19.70	18.39	18.42	18.11	17.79	17.64	17.78	17.69	16.92
Netherlands	10.48	11.28	8.16	9.00	9.08	9.03	8.80	8.53	8.57	8.58	8.57
Norway	10.44	12.37	13 32	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
Portugal	17.19	17.39	16.63	18.45	19.30	21.57	21.97	22.05	22.80	n.a.	n.a.
Spain	16.15	16.20	15.92	17.74	17.60	18.31	18.76	19.47	19.50	18.71	n.a.
Sweden	12.61	12.80	13.01	12.17	11.85	11.24	12.20	12.24	13.05	12.30	11.70
Switzerland	4.63	5.40	4.22	4.59	4.76	4.73	4.71	4.61	4.62	4.52	4.31
United Kingdom	13.05	15.02	10.62	10.12	10.71	10.65	10.15	10.13	9.93	9.94	9.97
Australia	13.00	15.00	13.00	15.10	15.00	14.60	14.40	13.70	13.40	13.65	13.70
Japan	9.04	8.32	7.76	7.78	7.87	7.80	7.58	7.51	7.39	7.19	7.20
New Zealand	12.99	12.55	12.84	13.59	14.02	10.41	10.13	10.58	10.61	n.a.	n.a.
South Africa	11.81	13.33	11.31	13.12	13.29	13.40	13.14	13.29	13.60	13.70	14.18
Philippines	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
Venezuela	7.39	12.50	15.00	15.75	15.00	15.00	14.00	14.00	14.00	13.50	13.00
Eurodollars, European	n.a.	n.a.	12.53	12.27	12.90	12.67	12.40	12.44	12.52	12.65	12.33

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983							1984
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	21.50	15.75	11.50	10.50	10.50	11.00	11.00	11.00	11.00	11.00	11.00
Canada	18.25	16.50	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Austria	12.50	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	15.75	18.00	15.50	13.25	12.50	12.50	12.50	12.50	13.25	13.75	13.75
Denmark	13.75	15.00	14.00	10.50	10.50	10.50	10.50	10.50	10.00	10.00	n.a.
Finland	9.83	9.84	8.95	9.07	10.07	10.10	10.16	10.14	10.15	10.18	n.a.
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	14.50	17.25	16.50	15.00	15.00	15.00	13.75	13.75	13.75	13.75	13.75
Italy	20.50	22.50	20.75	18.75	18.75	18.75	18.75	18.75	18.75	18.75	18.50
Netherlands	10.75	12.00	6.25	6.25	6.25	6.75	7.00	6.75	6.50	7.00	6.75
Portugal	12.50	13.75	14.50	14.88	13.88	13.13	13.50	13.25	13.75	13.50	13.63
Norway	18.75	20.50	23.50	27.50	27.50	30.00	30.00	30.00	30.00	30.00	30.00
Spain	18.50	17.04	19.00	22.73	23.47	25.19	24.09	23.70	22.87	20.85	20.01
Sweden	13.20	12.65	12.15	11.30	11.30	12.20	12.05	12.20	12.30	11.70	11.00
Switzerland	5.75	8.00	6.00	5.50	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	15.00	14.50	10.00	9.50	9.50	9.50	9.50	9.00	9.00	9.00	9.00
Australia	13.50	15.75	15.00	16.00	14.50	14.50	14.00	13.25	13.25	12.75	11.50
Japan	8.16	6.95	6.28	6.25	6.25	6.24	6.23	6.23	6.08	6.10	6.10
New Zealand	13.00	13.00	13.00	13.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00
South Africa	9.50	17.00	18.00	16.00	16.00	18.00	18.00	18.00	19.00	20.00	20.00
Argentina	77.00	92.60	109.50	184.00	240.00	152.08	188.58	188.58	188.58	188.58	152.08
Chile	49.55	61.43	85.19	44.21	43.14	37.50	39.83	40.60	40.40	35.11	31.43
Hong Kong	17.00	16.00	10.50	13.50	11.50	11.50	16.00	15.00	13.50	13.50	11.50
Indonesia	21.00	19.25	22.00	22.00	22.00	19.00	19.50	19.50	19.50	19.75	20.00
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	8.50	12.00	12.50	10.75	10.75	11.00	11.00	11.00	11.00	11.00	11.00
Mexico	24.25	31.81	46.12	58.63	58.73	58.23	57.78	57.14	56.82	56.44	55.95
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	13.60	11.83	9.33	8.88	9.00	9.00	8.95	8.93	8.93	8.98	9.05
Taiwan	16.20	15.25	10.75	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25
Thailand	16.50	17.00	16.00	16.00	16.00	15.50	15.50	15.50	15.50	16.00	16.00
Venezuela	15.00	15.50	17.00	17.00	16.50	16.25	16.00	16.00	16.00	16.00	16.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							1984
	Dec	Dec	Dec	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
United States	13.00	15.50	11.75	11.75	12.75	12.50	12.25	12.63	12.38	12.63	12.38
Canada	13.53	16.18	12.74	12.40	13.03	13.13	12.54	12.57	12.58	12.89	12.78
France	15.23	17.33	15.91	14.86	14.76	14.48	14.36	14.62	14.30	14.06	13.96
Germany	9.50	10.50	8.20	7.90	8.00	8.10	8.30	8.30	8.30	8.30	8.30
Netherlands	10.71	11.03	7.80	8.79	8.75	8.79	8.68	8.39	8.53	8.51	8.44
Norway	11.24	13.36	14.13	13.25	13.25	12.25	13.25	13.25	13.25	13.25	13.25
Spain	14.82	14.76	17.10	16.86	18.00	19.59	20.05	20.37	20.03	19.84	n.a.
Sweden	11.95	12.94	13.37	12.79	12.85	12.77	12.99	12.40	12.51	12.21	12.15
Switzerland	5.63	6.60	4.87	4.89	4.88	5.08	5.08	4.94	4.94	4.94	4.93
United Kingdom	14.21	16.65	12.34	11.89	12.34	12.27	11.89	11.84	11.51	11.57	11.52
Australia	14.25	16.50	15.00	16.00	15.75	15.50	15.00	15.00	15.00	13.50	14.00
Japan	8.60	7.70	7.55	7.30	7.34	7.32	7.30	7.29	7.27	7.09	7.05
Korea	28.20	26.90	15.90	13.90	13.90	13.90	14.20	14.10	14.20	14.20	14.30
Venezuela	16.15	17.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Eurodollars, U.S. companies	n.a.	n.a.	11.16	11.04	11.57	11.50	11.13	11.29	11.41	11.59	11.43

Key to data in tables

I. International markets

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

The *country of the borrower* is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

Data on *Eurocurrency market size* are based on foreign currency liabilities of banks in major European countries, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States (international banking facilities only).

II. Domestic markets

Day-to-day money rates

Argentina—7-day interbank money regulated by the Central Bank.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — Interbank call money.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy -- interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit used for monetary correction.

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — 60-day Central Bank promissory notes (PDBC).

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

Taiwan — interbank call money.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — 3-month time deposits.

Portugal — 90- to 180-day time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Key to data in tables — continued

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983. New series, as of September 1983, 20-year Republic of South Africa bonds.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Eurodollars, European — average secondary market yield of several actively traded, high quality issues of European governments and state agencies with a maturity of 7- to 12-years.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Australia — new issue yields for AA corporate bonds having a maturity of 5- to 7-years.

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — Bundesbank average yield on industrial bonds.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas

Eurodollars, U.S. companies — average secondary market yield of several actively traded, high quality issues with a maturity of 7- to 12-years.

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World Financial Markets

Morgan Guaranty Trust Company of New York

April 1984

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Table 1

Exchange rates

		Percent change from	
	*Mar 29, 1984**	*Jan 11, 1984***	*Dec 31, 1983***
Dollar (1980-82=100)			
Nominal effective	115.4	—3.7	—1.5
Real effective	112.3	—4.4	—2.5
Canadian dollar	1.279	+2.1	+2.7
Japanese yen	223.9	—4.5	—3.3
French franc	7.960	—8.4	—4.4
German mark	2.583	—9.1	—5.1
Italian lira	1.616	—5.5	—2.4
Swiss franc	2.142	—4.9	—1.7
Pound sterling	1.450	—3.8	+0.1

*Local currency units per U.S. dollar, except for pound sterling.

**Minus indicates depreciation of the dollar.

The dollar: correction or plunge?

In mid-January foreign exchange market sentiment toward the dollar started to undergo a change. From January 11, when it peaked against the European currencies, to March 29, the dollar fell 9% against the German mark, and 5% against the yen (see Table 1). It also weakened 5% against the Swiss franc and 4% vis-à-vis sterling. In contrast, it rose 2% relative to the Canadian dollar. As a result, on a nominal effective basis the dollar dropped 4% (6% if the Canadian dollar is excluded from the effective calculation). The big question now is, Will the dollar continue to fall, and if so, will the fall be gradual and limited — or disorderly and steep?

Among the many explanations for the shift in sentiment toward the dollar, three stand out: concern, which has been underscored by statements from various Washington officials, about the future financing of both the budget deficit and the mounting imbalances in U.S. trade and current accounts; financial market anxieties about rapid economic growth that could trigger an increase in inflation in the uncertain climate of an election year; and some restoration of confidence in the prospects for economic recovery and political stability abroad, notably in Germany. The recent decline in the dollar can be welcomed as a healthy correction from peaks not justified by basic economic considerations. However, if correction is not to turn into something much worse, it is vital that financial markets retain confidence in U.S. noninflationary growth policies.

It is worth recalling the episode of dollar decline in 1977. At the time, the U.S. authorities sought to talk down the dollar in order to stem the current account deficit resulting from faster economic growth in the United States than in other industrial countries. The U.S. economy was into its second year of expansion while others lagged. And the question of how rapidly U.S. inflationary pressures would build was beginning to trouble both foreign and domestic investors in dollar assets. The official welcome for depreciation led to a drastic decline in the dollar that helped ignite U.S. inflation, which in turn could only be arrested through the costly and protracted recession and disinflation of 1980-82.

While today's current account deficit is linked to the dollar's strength since 1981, it does not stem solely from a currency overvalued in terms of purchasing power. No less significant has been the combination of vigorous economic growth at home,

Chart 1

U.S. balance of payments
in billions of dollars

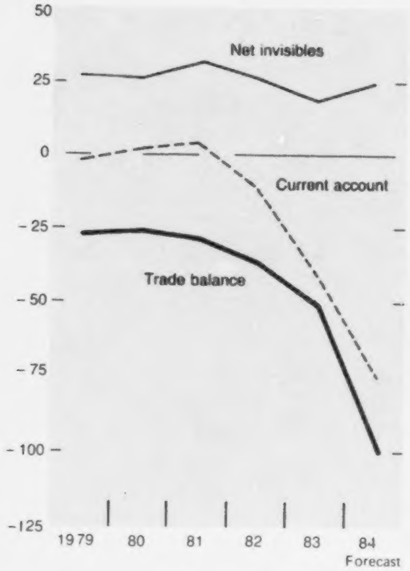
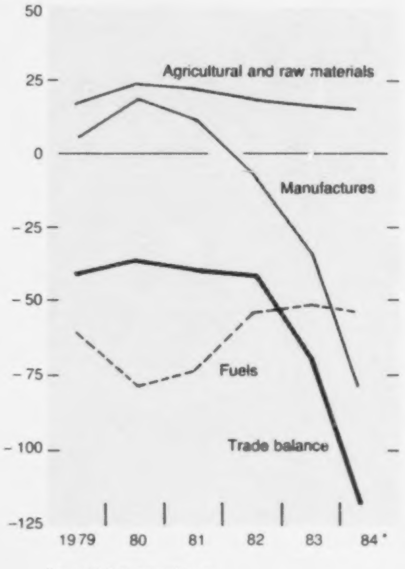


Chart 2

U.S. trade balances by sector
exports f.a.s./imports c.i.f. basis
in billions of dollars



*Jan–Feb at annual rate

prolonged weakness in Europe, and the collapse of export markets in Latin America. Reliance now on a sharp fall in the dollar as the principal means to eliminate the external deficit rapidly would not be in anyone's interest. Not only would U.S. inflation flare up, in time necessitating new restraint and its consequences, but Europe's fledgling recovery might be derailed. Even more important, LDCs would suffer shrinkage in their most important export market and their debt-servicing problems would be seriously aggravated by the rise in dollar interest rates that would certainly ensue.

The basic challenge before governments of industrial countries is to achieve more balanced global economic growth performance. That would permit a significant reduction in the U.S. current account deficit over a period of two to three years. With the proper distribution of exchange rate and growth adjustments worldwide, the depreciation of the dollar could be kept gradual and limited, obviating the need to engineer a sharp depreciation.

The U.S. external financing problem

One reason for dollar weakness is rising concern about the widening U.S. current account deficit, centering on its financing, and what its prolongation implies about the nation's international standing. The exchange markets took note particularly of the warning that the United States is "on the verge of becoming a net debtor internationally," that it could "soon become the largest," and that the stability of the dollar and domestic financial markets could become "hostage to events abroad."

By the official estimate, the U.S. current account deficit amounted to $41 billion in 1983, widening throughout the year to $61 billion at an annual rate in the fourth quarter. The deficit in 1982 was only $11 billion. The main locus of 1983's $30 billion deterioration on current account was a $24 billion jump in the merchandise trade deficit (balance of payments basis) (see Chart 1). On the more familiar customs-CIF valuation the merchandise imbalance exceeded $90 billion in the closing quarter of 1983 and for this past January-February period hit a new record annual rate of $117 billion ($9.8 billion at a monthly rate).

Although the surplus on agricultural trade has held fairly steady since mid-1983 and petroleum imports are roughly at 1982 levels, there is slim evidence as yet that the fast deterioration of the manufactures balance is over (see Chart 2). Some encouragement may perhaps be drawn from the 3% January-February rise in exports over December, principally to Europe, Canada, and Latin America (see Table 2). Export growth will have to continue during the course of 1984 and import growth slow substantially, if the full year's U.S. trade deficit is to be held below $100 billion (balance of payments basis) and the current account deficit below $75 billion (see Table 3).

A deficit of that magnitude is unprecedented for the United States. Still, experience of the ups and downs of the OPEC surplus since 1973 makes the point that payments imbalances that seem severe and intractable are sometimes resolved surprisingly fast. Nonetheless, the prospect of a $75 billion U.S. current account deficit this year, and still more the risk that it might continue unchecked in future years, is troubling from several points of view.

First, some find it improper for the world's wealthiest nation to divest foreign savings to finance domestic consumption higher than

Table 2

U.S. merchandise trade

percent change from year ago

	1983	*Jan-Feb 1984*
Exports	—5.5	+5.4
Industrial countries	+0.2	+15.0
Canada	+13.4	+34.0
Japan	+4.4	+21.2
Western Europe	—6.8	+0.6
France	—16.2	—4.9
Germany	—5.9	+13.8
Italy	—15.4	—1.6
United Kingdom	—0.2	+9.0
Developing countries	—12.5	—2.7
OPEC members	—26.0	—22.3
*Latin America**	—20.1	+34.8
Imports (CIF)	+5.9	+27.5
Industrial countries	+7.4	+38.8
Canada	+12.3	+38.9
Japan	+9.1	+40.5
Western Europe	+3.0	+36.4
France	+8.4	+100.4
Germany	+5.8	+51.1
Italy	+2.8	+172.8
United Kingdom	—4.7	+20.7
Developing countries	+3.7	+32.8
OPEC members	—19.1	—41.6
*Latin America**	+10.3	+50.4

*Excluding Ecuador and Venezuela.

Table 3

U.S. current account

billions of dollars

	1983	*1984**
Merchandise exports	200.2	220.0
Merchandise imports	260.8	320.0
Trade balance	—60.6	—100.0
Net invisibles	19.8	25.0
Current account	—40.8	—75.0

*Forecast.

would be possible in the absence of the current account deficit. Would not LDCs find better use for scarce world savings? Such questions should consider that international investors place capital in the United States for greater or more secure return than they judge attainable elsewhere. Their judgment should not be lightly cast aside. The goal of restoring voluntary private capital flows to LDCs from the United States and other industrial countries will not be reached until LDCs establish an attractive investment climate. The process includes the working down of excessive debt levels, when these have grown out of line with export earnings, and is actually speeded up by vigorous U.S. import demand and the associated U.S. current account deficit.

A second criticism of the U.S. external deficit lies with its implications for the nation's net foreign position. At the end of 1983 the United States enjoyed a net international creditor position, estimated according to Department of Commerce definitions at $125 billion (see Chart 3). If the $75 billion current account deficit expected for 1984 were to persist in 1985 the entire net asset position that the United States has accumulated over the past half century would be wiped out before the end of next year. That conclusion may be premature since it overlooks the statistical inadequacies in the recorded U.S. current account and the nation's external balance sheet, which make no allowance for the world current account discrepancy that now runs at around $100 billion annually.

The discrepancy implies that, around the world, deficits are being overstated or surpluses understated in the reported statistics, principally on service transactions and investment income. Much of the rise in OPEC members' service imports after the second oil shock finds no counterpart in recorded receipts by industrial countries or other LDCs. Moreover, there are contradictions in industrial-country data on capital positions. For example, banks reporting through the BIS listed liabilities to U.S. nonbanks of $87 billion as of June 1983. At that same time, U.S. nonbanks reported to the U.S. authorities claims on foreign banks of only $41 billion, suggesting the possibility of significant understatement of both investment earnings and the net asset position in the official U.S. data.

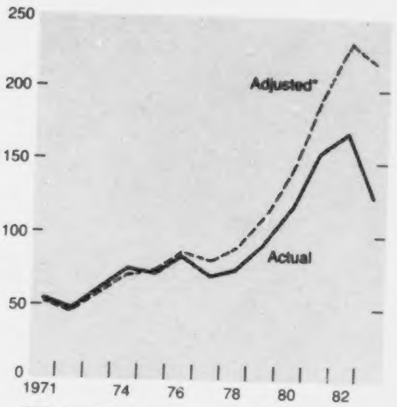
Although no precise calculation can be made, even a conservative allocation of the world current account discrepancy would credit the United States with an additional $25 billion per annum in recent years. Thus the adjusted net creditor position of the United States may not be as close to exhaustion as recent statements have proclaimed (see Chart 3). Both its level and rate of erosion are actually much in doubt. Still, any deterioration gradually undermines the structural strength in net investment earnings that the United States has attained in recent years.

A shift by the United States to a net debtor position need not be destabilizing for the dollar. The net position has no necessary bearing on the ease with which the current account deficit can be financed, since there is no reason to assume that domestic holders of dollar assets behave very differently from foreign holders. The fact that the United States was a net external creditor in the late 1970s did not prevent a sharp depreciation of the dollar when investors' confidence in U.S. macroeconomic policies failed. There was ominous talk of a dollar overhang in official reserve portfolios. An elaborate scheme was advanced for an IMF substitution account that would forestall diversification of reserves out of dollars, alleged at the time to

Chart 3

U.S. net asset position

in billions of dollars



*Adjusted for world current account discrepancies

Table 4

U.S. balance of payments

billions of dollars
minus sign indicates an outflow

	1982	1983
Current account balance	—11.2	—40.8
Changes in U.S. holdings of foreign assets	—118.0	—49.3
Official holdings	—10.7	—6.1
Private holdings	—107.3	—43.2
Direct investment	3.0	—7.6
Claims of U.S. banks	—109.3	—25.0
Changes in foreign holdings of U.S. assets	87.9	83.0
Official holdings	3.2	6.1
Liabilities of U.S. banks	—2.1	0.9
Private holdings	84.7	76.9
Direct investment	10.4	9.5
U.S. Treasury securities	7.0	8.6
Other U.S. securities	6.1	8.6
Liabilities of U.S. banks	64.3	51.3
Statistical discrepancy	41.3	7.1

be a key source of currency instability. The main lesson from the 1970s' debacle is that investors — official or private, domestic or foreign — will attempt to move their portfolios into currencies other than the dollar if they judge that the real value of their wealth will be eroded by inflationary U.S. policies or that better returns can be obtained abroad. Thus the future of the dollar is very much a question of confidence.

Provided confidence is well maintained, the financing requirements of large current account deficits need not precipitate a drastic fall in the dollar. In 1983, investor confidence was so strong as to drive up the dollar, suggesting, on an *ex ante* basis, that investors desired to place more funds in dollar assets than were needed to finance the current account deficit. As things turned out, according to official balance of payments accounts, there was no need for increased foreign capital inflows into the United States last year because the increase in the current account deficit from $11 billion in 1982 to $41 billion in 1983 was more than covered by a substantial decline in U.S. capital outflows (see Table 4). That decline also made up for a large drop in net unrecorded capital inflows. The shrinkage of the positive errors and omissions item in 1983 suggests a sharp diminution of capital flight from other countries into the United States.

Banks were principally responsible for last year's recorded decline in U.S. capital outflows (see Table 5). There was a slowdown in U.S. banks' lending to LDCs in general (excluding offshore centers) as well as in lending to Europe. The latter reflected slower growth in the interbank market and weaker credit demand due to a lagging economic recovery. At the same time, banks became net capital importers in 1983, a shift that can also be traced partly to the rise in domestic interest rates relative to Eurodollar rates (see Chart 4) which provided an incentive for banks to fund more of their needs in the Euromarkets.

Financing the large and increasing current account deficit in 1984 will not be as easy as in 1983. It can be done, but most likely at higher interest rates. How high a price will be determined by the level of investor confidence. While a sharp drop in the dollar, as advocated by some, might reduce the current account deficit more quickly, it could make the financing of the current account deficit more difficult by undermining investor confidence. This could lead to considerable pressures on the dollar, which would raise prices and prompt much higher interest rates. To forestall such a course of events and to secure financing of the current account deficit in an orderly manner with minimum risk of sharp increases in domestic interest rates, the issue of the domestic policy mix has to be addressed.

U.S. inflation on the rise?

At the beginning of 1983 the financial community shared Administration hopes for a gradual U.S. economic recovery that would avoid overheating and accelerating inflation. Actual performance during 1983 broadly played by the script. Real GNP growth trended down from a peak 9.7% in the second quarter to 5% in the fourth, and it seemed that the economy was settling into a steady trot. Moreover, although consumer price inflation edged up after midyear from its recession trough, it seemed to hold at a 5% annual rate thereafter.

Events in 1984, however, cannot be reassuring to proponents of a sustainable and noninflationary course. Confounding both market and official expectation, U.S. real GNP growth bounced up to an ini-

Table 5

Banks in the U.S.: own claims on and liabilities to foreigners

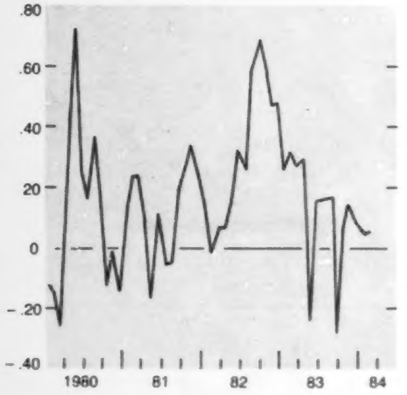
end-December
billions of dollars

	1982	1983
Claims on		
Own foreign offices	127.3	143.9
Unaffiliated foreign banks	121.4	120.9
All others	107.0	119.6
Total	355.7	384.4
Liabilities to		
Own foreign offices	119.2	147.4
Unaffiliated foreign banks	50.2	59.6
All others	57.6	74.0
Total	227.1	281.0
Net claims on		
Own foreign offices	8.1	—3.5
Unaffiliated foreign banks	71.1	61.3
All others	49.4	45.6
Total	128.6	103.4

Chart 4

3-month interest rate differentials

$ LIBOR minus domestic CDs *



tially estimated 7.2% in the first quarter. Since mid-1983, domestic demand has been growing even more rapidly but not all of this strength shows in the output and GNP figures because it has been satisfied increasingly through higher imports. It is interesting to recall the experience of the late 1970s. Charts 5 through 8 compare the current recovery with the one starting in 1975. Real GNP, employment, and industrial production are now increasing just as rapidly, if not more so, than in the earlier recovery. And while the inflation cycle is beginning from a lower base this time, it seems to be following roughly the same pattern as before.

Most mainstream forecasters take comfort from the still-sluggish wage figures for the economy at large and believe that memories of the severity of the employment shakeout during the 1980-82 recession will linger for some time to come. But with a rapidly tightening labor market (the unemployment rate has fallen to 7.8% from its peak of 10.7%), briskly rising capacity utilization (now above 80%), and sparkling corporate profits, price and wage pressures are likely to become stronger. Furthermore, commodity prices are also increasing. Measured by *The Economist* dollar index they are up 30% from their 1982 low and 3% in just the first three months of 1984. Also, short-term business credit in March is estimated to be 4% higher than three months ago. The standard inflation forecasts of 5%-6% from the fourth quarter of 1983 to the fourth quarter of 1984 could quickly change to 6%-7%, particularly if there is substantial downward correction of the dollar.

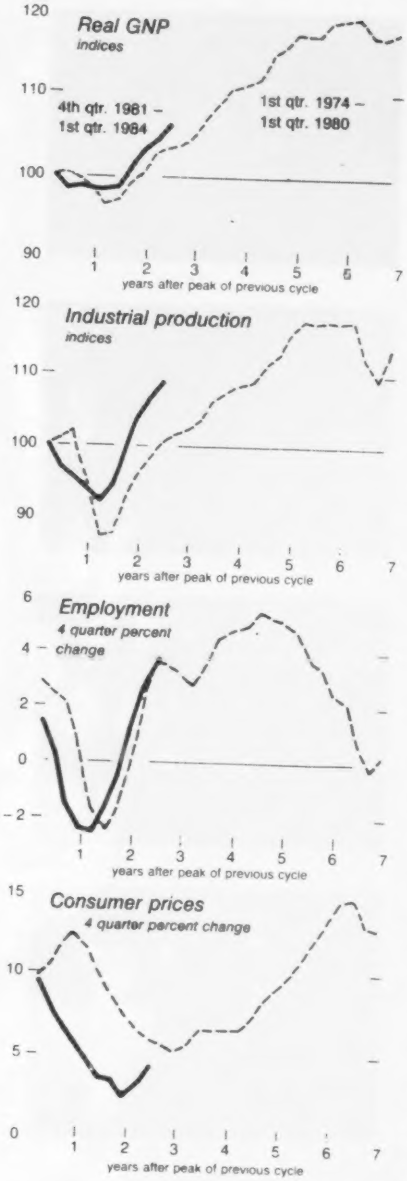
If previous experience has any message for today, it must be that an expansion of domestic demand on the order of 8% at an annual rate is not sustainable. If the rate of growth does not slacken, as a few analysts suggest it will soon, some policy restraint is needed to help moderate it. There is near-unanimity that fiscal correction is a tool far superior to monetary restriction as the way to brake the potentially runaway U.S. economy, the more so as the trade deficit widens. In the domestic context, reliance on monetary restraint imposes disproportionate burdens on such sensitive sectors as housing, autos, and consumer durables. It also poses financial risks for companies that are highly leveraged, especially those with large short-term or floating-rate liabilities taken on during the last recession. Moreover, for any given curtailment of overall domestic growth, a slowdown achieved through monetary restraint provides less benefit to the trade balance than does one reached by fiscal discipline. By slowing or even preventing correction of the dollar, a monetary squeeze is prone to delay recovery of U.S. competitiveness in markets at home and abroad. Sharp increases in U.S. interest rates also could set back recovery of U.S. export markets, especially in debt-burdened LDCs.

Better understanding of these disadvantages of monetary restriction has helped impart momentum to the President's proposal that steps be taken this year to implement a phased reduction of the federal budget deficit. The imperative for the United States to begin a resolute shift toward fiscal restraint is reinforced by the fact that U.S. willingness to take that step has become the litmus test for sustained investor confidence in U.S. economic management. Without fiscal constraint the markets judge that the Federal Reserve would be obliged to monetize the budget deficit at some point as the economy moves to full employment, rather than letting interest rates rise without limit.

The Administration's last-published forecast for FY 1984's budget deficit

Charts 5–8

Economic recoveries



is $184 billion, compared with the $195 billion outcome for FY 1983. The strength of the economy may help reduce the deficit to $175 billion this year. For the medium term, according to the Congressional Budget Office, the Administration's January budget proposal still leaves deficits — largely structural in nature — of around $185 billion in each of the fiscal years 1985-88.

The President and Senate Republicans are now proposing a downpayment package that maintains the overall supply-side orientation of the President's program but could reduce the cumulative deficit by $150 billion over FY 1985-87 through roughly equal amounts in reduced military spending, cutbacks in other domestic spending, and increased taxes. House Democrats have another proposal that cuts the deficit by about $30 billion more over the three-year period. Here, aggregate tax increases are of the same magnitude as in the President's package but military spending is reduced by twice as much while social-spending cuts are half as large. This package also incorporates a pay-as-you-go provision that matches future spending increases with a rise in taxes. Other plans combine various features of these packages and cut the deficit by even larger amounts through lower spending, higher taxes, and some deferment of tax indexation. Most of these plans cut military spending more than the President's. The political focus at this stage is still on the philosophical mix to be combined in the package. A compromise package, it would appear, is still some time away from enactment.

These deficit-reducing efforts are a very welcome development, but they would result in no more than a down payment toward the long-term goal of the gradual elimination of the structural deficit. The Congressional Budget Office estimates that the President's plan would reduce the deficit by a cumulative total of only $100 billion spread over the next three years. Moreover, most of the cuts, as currently proposed, would occur toward the end of the FY 1985-87 period. This back-end loading of the deficit reduction would leave the United States with a fiscal policy that is still procyclical, even though the economy is already moving toward full employment.

There should be no misapprehension that progress on the fiscal deficit will permit relaxation of U.S. monetary policy. While the economy still was operating far below capacity it could not do much harm for the Federal Reserve to err on the side of ease in forming its judgments on desirable money growth and the associated level of bank reserves and interest rates. That leeway now is gone. With economic growth so much more rapid than anticipated it is little comfort that the money aggregates are currently within their target ranges. Those ranges cannot stand in sacrosanct isolation when there is clear risk to the fundamental goal of sustained, noninflationary growth. Nor can the Fed know with any precision the consequences of a given level of interest rates or rate of money growth given the vagaries of velocity. Because of the market's acute sensitivity to any hint of policy indecision, the Federal Reserve must set a prudent course that errs, if at all, on the side of restraint.

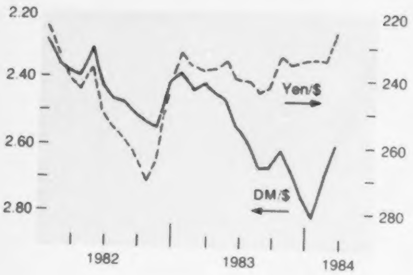
European recovery strengthens

While concern over the U.S. financing and inflation outlook may have been the principal source of the change in sentiment toward the dollar this year, there has also been some reassessment by the markets of Europe's political and economic prospects. The dollar's surprising strength late in 1983 occurred main-

Chart 9

Spot exchange rates

monthly averages



ly vis-à-vis European currencies (see Chart 9). Their weakness was accentuated by perceptions of a general European malaise, with fears of political turmoil from the installation of Pershing missiles and pessimistic readings of Germany's economic outlook. Although longer-term worries continue about Europe's political and economic cohesion and its technological competitiveness, the neutralist tendencies in Germany have been contained for the time being and German economic performance is turning out quite strong. With these clouds over Europe seeming to have lifted a little, an upward correction of European currencies against the dollar was in order. Notwithstanding a widening interest-rate differential in favor of the dollar, underlying asset preferences now embody increasingly positive views of Europe. Evidence of this can be seen in the continuing strength of European stock markets this year in contrast with weakness in U.S. markets.

Until late 1983 there was concern about Germany's ability to achieve even 2% growth in 1984. By the end of 1983, it turns out, real GNP was actually back to its highest point in over three years, equal indeed to the peak level reached in the first quarter of 1980. Updated projections now call for slightly more than 3% growth in 1984, a major improvement on the 1.3% achieved last year.

Better export prospects have greatly brightened business sentiment in Germany. Export growth was below 3% in the first half of 1983, partly due to the dramatic cutback in French imports under the austerity program. By year-end German exports were rising at annual rates of over 10%. Exports to the United States soared in the second half of 1983, and were up nearly 40% in dollar terms by December from a year earlier. The share of sales to the United States in all German exports increased to 9.3% in December from 6.6% in December 1982. The increase in exports to the United States directly and indirectly contributed up to half of Germany's overall 1.3% rise in real GNP last year.

The improved economic climate in Germany heightens the likelihood of further dollar decline against the mark. With sustained economic growth now established, the German authorities will be reluctant to resist mark appreciation by letting domestic interest rates drop. Large increases in money supply would be unwelcome. Nor are lower interest rates appropriate if high real wage increases give a further boost to domestic demand.

The U.K. recovery is proceeding at a steady pace. Real GDP is expected to rise about 2.5%-3% this year, following a similar rise in 1983. A striking fall in Britain's personal savings rate, coupled with rising real earnings for those employed, has provided sustained strength to U.K. private consumption. Much of the increase in final demand has been met by imports. However, it does at last appear that U.K. industrial production is on the rise — even in manufacturing. Although there are tentative signs of an upturn in private-sector wages, inflation remains at about 5%. U.K. investment intentions are now quite positive, and business confidence has plainly improved.

Despite these constructive features, sterling has gained little on the dollar and has weakened considerably against the mark this year. Downside risks on oil prices may have contributed. More importantly, U.K. interest rates have recently come down a little in both nominal and real terms. By the latter measure they are now among the lowest in the major countries. These are indications that monetary restraint in Britain is not as tight as a mechanical reading of U.K. money supply

Table 6

Growth and inflation outlook
percent change

	Growth rate*		Consumer prices**	
	1983	1984	1983	1984
United States	3.3	5.7	3.8	5.5
Canada	3.0	4.2	4.5	6.0
Japan	3.2	4.4	1.9	2.2
Western Europe	0.9	1.8	7.9	6.7
France	0.5	0.5	9.3	7.0
Germany	1.3	3.2	2.6	2.6
Italy	—1.7	1.5	12.9	10.0
United Kingdom	3.0	2.7	5.3	6.0

*Real GNP except France, Italy, and the United Kingdom where real GDP is used.
**December-December.

numbers or targets might suggest. Whereas the assertion of macroeconomic control was the government's major preoccupation during its first term, the focus now is more on structural reforms to improve the workings of market forces. The March budget, neutral or slightly expansionary in its implications for demand, introduced bold steps to curtail distortions in the tax system, which have unduly institutionalized saving and favored investment of doubtful productivity. The medium-term benefits of these supply-side reforms could be considerable.

Sustained economic growth in Germany and the United Kingdom, together with expanding export markets in the United States, brightens the economic prospects for the rest of Europe. The rest also gain from the steps they are taking themselves to tackle the structural imbalances portrayed by high inflation and by large government or external deficits. Italy is moving toward reducing wage indexation; Belgium and the Netherlands are devising programs to cut their large public-sector deficits; and France has reduced its current account deficit significantly through the austerity program initiated last year. Although domestic demand remains weak in these countries, because purchasing power is squeezed by falling real wages and higher taxes, their overall output may increase slightly thanks to higher exports. On the whole, European growth should average 1.8% this year, compared with 0.9% in 1983 (see Table 6).

Conclusions

A U.S. current account deficit on the order of $75 billion a year is not sustainable. Still, a rapid elimination would not be desirable as it would have a major deflationary impact on the world economy. In fact, a U.S. deficit of $20 to $30 billion a year in the official figures is entirely reasonable as long as the world current account discrepancy is on the order of $100 billion. For the time being, the financing of a U.S. deficit considerably larger than $20-$30 billion should not pose major problems, since faster U.S. growth will tend to raise U.S. interest rates that attract the requisite capital inflows from abroad.

It would be unwise to attack the current account deficit solely by a large devaluation of the dollar. A strong dollar has important benefits for the U.S. economy. It keeps inflation low and improves cost efficiency. A precipitous decline would be harmful both to the United States and to the rest of the world. Rapid inflation would ensue in the United States, leading to very high dollar interest rates that could precipitate another global recession. Other industrial countries would find their export competitiveness seriously reduced by a sharp fall of the dollar, which would hamper their economic recovery.

Nor would LDCs necessarily benefit from a major decline in the dollar. True, while the dollar was strengthening, LDC debt-servicing capacity was impaired because even an unchanged volume of exports provided a reduced flow of dollar earnings to service debt that was predominantly denominated in dollars. To the extent that dollar strength, related in part to high interest rates, depressed real demand for LDCs' exports, their plight was further aggravated. Symmetry argues that LDC debt-servicing burdens would be alleviated if the dollar now weakens.

However, comfort should not be drawn in haste. It is not clear whether LDCs generally would experience any significant terms-of-trade improvement from a weaker dollar, although oil-importing countries could benefit if oil prices remain stable in dollar terms. Furthermore, if dollar weakness were to necessitate higher U.S. interest rates, any LDC terms-of-trade gains could be offset, at least in part, by rising interest payments.

The preferable resolution of the U.S. current account deficit is a modest decline in the dollar combined with a better distribution of world economic growth. Reduced fiscal stimulus through a cutback in the federal budget deficit should help slow U.S. growth to sustainable noninflationary levels in the years ahead. It would also maintain the investor confidence necessary to finance the current account deficit. At the same time, faster growth abroad would help lower the U.S. current account deficit and reduce growing surpluses in some large industrial countries. While growth prospects in Europe and Japan now appear somewhat brighter, some policy stimulus is still desirable as unemployment levels, particularly in Europe, are far too high. In countries where fiscal consolidation has cut budget deficits or inflation remains very low, future tax cuts and reforms should be used to stimulate domestic demand. A modest decline in the dollar also should allow a somewhat more accommodative monetary policy in Europe and Japan. With stable to lower interest rates abroad and a modest increase in U.S. interest rates the resulting higher interest rate differentials in favor of the dollar should help moderate its depreciation. A gradual, modest decline of the dollar and more even distribution of growth would benefit all countries, but a sharp drop could subject the world economy to another stagflationary shock.

Statistical appendix

for key to data in tables see pages 18 and 19.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average 100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.6	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1983																
March	112.0	100.9	105.8	89.3	90.8	108.9	91.3	86.4	104.8	92.2	106.5	80.5	108.4	98.7	97.8	81.2
April	112.5	100.4	106.4	87.5	87.7	109.1	91.3	90.2	104.4	91.5	105.1	80.1	109.9	98.7	98.7	81.5
May	112.2	100.6	107.9	88.2	86.8	108.5	90.8	92.9	104.0	90.8	104.8	79.5	110.6	97.5	99.3	81.7
June	114.3	100.8	106.6	89.4	86.4	107.6	90.7	93.6	103.4	90.2	104.6	78.3	110.6	96.2	99.5	82.2
July	115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August	117.0	101.2	106.2	91.5	85.6	106.5	89.6	94.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November	116.5	100.9	110.7	94.8	85.1	107.1	88.3	92.8	103.2	88.4	104.4	75.9	112.8	94.6	100.9	82.7
December	118.0	100.4	112.1	94.2	84.7	106.8	88.0	91.8	102.8	88.2	104.1	75.8	113.8	94.0	99.5	83.1
1984																
January	119.1	100.5	113.3	95.5	84.1	106.5	87.6	91.5	102.6	87.7	103.7	76.3	113.8	93.6	99.2	83.4
February	117.3	100.2	111.9	97.3	84.7	108.0	87.0	91.4	103.5	88.3	104.3	77.1	112.2	94.0	99.0	82.9
March 2	115.7	99.5	111.3	96.9	85.3	109.0	86.9	91.8	104.0	88.8	104.9	77.3	111.0	94.4	98.8	83.1
9	114.4	98.5	115.1	96.8	85.4	109.2	87.1	90.1	104.5	89.0	105.2	77.4	112.0	94.7	98.7	83.4
16	115.1	97.7	115.1	98.0	85.3	109.0	87.3	89.7	104.3	89.1	105.1	77.1	112.0	94.7	98.7	83.5
23	116.3	97.7	115.0	97.5	85.1	108.7	87.3	89.4	103.8	89.0	104.9	76.9	112.0	94.3	98.6	83.7

Real effective exchange rates

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.5	99.6	103.1	93.1	102.2	103.5	103.5	99.2	100.2	107.5	100.0	102.0	98.7	103.7	96.7	101.3
1981	100.7	100.0	104.7	102.8	100.2	97.4	98.7	101.9	99.1	100.3	97.7	99.1	98.8	99.4	101.0	102.1
1982	109.8	100.4	92.3	104.1	97.7	99.1	97.8	98.9	100.7	92.1	102.4	99.0	102.5	96.9	102.4	96.6
1983	112.4	102.9	96.4	99.7	95.8	99.2	99.8	94.5	101.5	91.5	101.6	89.3	105.0	98.5	100.9	91.2
1983																
March	110.6	102.7	98.5	96.3	97.6	101.1	99.7	89.2	103.8	94.0	103.5	90.4	103.0	100.6	99.1	89.0
April	110.4	103.0	96.1	94.6	96.1	100.9	100.1	93.2	102.4	93.0	101.7	90.5	103.9	100.9	100.5	89.4
May	110.3	103.3	96.9	95.4	94.6	100.1	100.2	96.3	101.6	92.7	101.3	90.3	104.1	100.4	100.7	90.0
June	112.6	103.3	95.3	96.6	94.3	99.3	100.0	96.9	101.0	92.3	100.9	89.5	104.0	98.8	101.3	90.9
July	113.3	103.7	95.2	97.2	95.0	98.3	100.1	96.4	101.3	91.8	101.3	87.7	104.7	96.7	100.8	92.5
August	115.2	103.8	93.6	99.3	94.4	98.0	98.9	97.1	100.6	91.2	100.8	87.9	105.7	96.1	100.8	92.9
September	113.9	104.2	94.7	100.7	94.9	98.1	99.3	97.3	100.5	90.5	100.8	88.1	105.5	97.5	102.9	92.1
October	113.2	103.0	97.2	102.2	95.5	98.8	99.5	94.9	101.3	90.0	100.9	87.7	105.7	97.4	102.4	92.2
November	114.3	103.1	97.3	104.0	95.5	97.8	99.6	95.4	100.8	89.4	100.2	88.3	105.7	96.7	102.2	93.1
December	115.4	102.9	98.4	103.6	95.6	97.3	99.7	94.4	100.3	88.8	99.8	88.7	106.5	95.5	101.2	93.9
1984																
January	116.3	102.9	99.2	105.3	95.5	96.8	99.7	94.4	100.1	88.0	99.0	89.8	106.4	94.7	100.6	94.4
February	114.4	102.4	97.8	107.7	96.7	98.0	99.6	94.2	101.1	88.2	99.4	91.2	104.8	95.0	100.0	94.3

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1980	1981	1982	1983						1984	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Eurodollar											
overnight	19.25	12.87	9.25	8.75	9.38	9.25	9.25	9.00	9.50	9.25	9.37
one month	19.12	13.31	9.12	9.81	9.87	9.38	9.44	9.69	9.69	9.50	9.87
three months	17.55	13.75	9.19	10.19	10.25	9.50	9.62	9.75	9.81	9.62	10.12
six months	16.37	14.81	9.50	10.62	10.62	9.69	9.69	9.94	10.06	9.87	10.37
twelve months	14.87	14.75	9.62	10.75	10.94	10.00	9.94	10.31	10.37	10.19	10.81
Euro-Canadian dollar											
one month	17.50	15.37	10.00	9.00	8.87	9.06	8.94	9.25	9.12	9.62	9.62
three months	16.88	15.37	10.00	9.37	9.37	9.13	9.19	9.37	9.50	9.62	9.81
six months	15.37	16.37	10.13	9.87	9.87	9.38	9.37	9.56	9.75	9.87	10.00
twelve months	14.00	16.37	10.25	10.12	10.44	9.75	9.69	9.75	10.00	10.06	10.37
Euro-French franc											
one month	11.12	15.75	23.00	12.12	13.00	12.75	12.25	12.25	12.12	12.12	16.00
three months	11.75	17.00	24.00	13.50	15.00	14.31	12.87	13.19	12.19	13.00	17.25
six months	12.25	18.00	22.00	15.25	16.75	15.81	14.00	14.12	12.31	13.75	16.75
twelve months	12.87	18.25	19.75	16.75	16.88	16.19	14.87	14.69	12.62	14.37	16.13
Euromark											
one month	8.87	10.44	5.87	4.81	5.25	5.56	5.56	6.19	5.25	5.69	5.69
three months	8.87	10.50	5.87	5.06	5.50	5.75	5.81	6.19	5.87	5.87	5.81
six months	8.87	10.56	5.94	5.50	5.94	5.88	5.81	6.19	6.12	6.19	6.94
twelve months	8.93	10.25	6.00	5.94	6.44	6.19	6.12	6.44	6.37	6.37	6.19
Euro-Dutch guilder											
one month	8.87	10.75	5.12	5.44	6.00	5.94	5.75	6.00	5.81	5.87	5.94
three months	9.31	10.75	5.19	5.62	6.25	6.19	6.06	6.19	6.00	5.94	6.00
six months	9.37	10.75	5.38	6.00	6.44	6.25	6.19	6.31	6.25	6.12	6.06
twelve months	9.62	10.75	5.63	6.31	6.75	6.56	6.50	6.62	6.37	6.44	6.44
Euro-Swiss franc											
one month	6.00	8.87	2.81	4.69	4.19	3.69	3.50	4.06	3.37	3.00	3.44
three months	6.00	9.25	3.25	4.75	4.44	4.13	4.12	4.06	3.75	3.44	3.62
six months	5.75	9.25	3.44	4.87	4.81	4.31	4.19	4.19	3.94	3.81	3.87
twelve months	5.50	8.50	3.44	4.81	4.94	4.38	4.31	4.37	3.94	3.94	4.12
Eurosterling											
one month	14.75	15.37	10.56	9.56	9.56	9.63	9.19	9.06	9.12	9.19	9.12
three months	14.75	15.69	10.44	9.81	9.75	9.56	9.25	9.25	9.31	9.37	9.19
six months	14.25	15.69	10.31	10.25	10.12	9.56	9.37	9.44	9.50	9.56	9.31
twelve months	14.00	15.37	10.31	10.50	10.50	9.81	9.69	9.69	9.81	9.87	9.50
Euroyen											
one month	9.12	6.12	6.75	6.44	6.69	6.69	6.12	7.25	6.25	6.12	6.87
three months	9.25	6.12	6.75	6.50	6.62	6.69	6.31	6.75	6.31	6.31	6.56
six months	9.62	6.87	7.10	6.56	6.62	6.69	6.31	6.69	6.38	6.31	6.50
twelve months	9.37	6.87	6.81	6.56	6.75	6.69	6.44	6.69	6.44	6.44	6.62

International bond issues — by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Mar	
				Jan	Feb	Mar	1984	1983
Eurobonds	**31 616**	**51 645**	**48 479**	**6 679**	**8 501**	**4 309**	**19 489**	**11 618**
U.S. dollar	26 830	43 959	38 406	5 771	6 706	3 170	15 647	9 224
Canadian dollar	634	1 201	1 039	112	16	63	191	245
German mark	1 277	2 588	3 817	302	567	77	946	1 205
British pound	501	748	1 947	281	577	514	1 372	14
Japanese yen	368	374	212	—	43	—	43	148
European composite unit	309	1 980	2 019	125	476	338	939	457
Other	1 697	795	1 039	88	116	147	351	325
Foreign bonds	**21 369**	**26 397**	**27 677**	**2 042**	**2 829**	**1 906**	**6 777**	**8 459**
U.S. dollar	7 552	5 946	4 400	200	100	1 079	1 379	1 423
German mark	1 310	2 952	2 671	161	308	77	546	788
Dutch guilder	481	956	1 053	63	157	—	220	374
British pound	746	1 214	811	91	176	29	296	99
Swiss franc	8 285	11 432	14 299	1 236	1 682	649	3 567	4 557
Japanese yen	2 457	3 418	3 772	278	235	67	580	1 118
Other	538	479	671	13	171	5	189	100
Total	**52 985**	**78 042**	**76 156**	**8 721**	**11 330**	**6 215**	**26 266**	**20 077**

International bond issues – by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984 Jan	1984 Feb	1984 Mar	Jan-Mar 1984	Jan-Mar 1983
Industrial countries	**40 861**	**63 062**	**60 281**	**7 337**	**9 752**	**5 850**	**22 939**	**17 121**
Australia	991	2 250	2 394	181	149	135	465	355
Austria	1 557	1 668	1 265	216	233	100	549	490
Belgium	527	211	1 153	—	—	146	146	192
Canada	10 648	11 979	7 411	948	436	485	1 869	2 059
Denmark	695	1 269	1 719	600	273	268	1 141	379
Finland	672	815	866	145	90	163	398	206
France	3 156	8 456	6 461	522	1 404	221	2 147	1 968
Germany	279	1 101	3 095	281	473	117	871	977
Ireland	517	625	959	35	64	—	99	185
Italy	1 108	2 214	1 565	250	82	100	432	230
Japan	6 928	8 397	13 966	1 754	2 557	827	5 138	4 068
Netherlands	630	894	946	106	291	47	444	174
New Zealand	1 107	1 375	560	—	131	—	131	402
Norway	530	832	699	100	25	30	155	186
Portugal	30	206	76	—	21	100	121	46
South Africa	92	374	548	—	96	75	171	182
Spain	444	747	1 470	272	44	204	520	389
Sweden	2 050	2 479	3 812	176	545	905	1 626	1 995
United Kingdom	1 408	1 201	1 398	300	863	287	1 450	176
United States	6 770	14 538	7 486	1 415	1 680	1 377	4 472	1 784
*Other**	722	1 431	2 432	36	295	263	594	678
Developing countries	**4 886**	**5 003**	**2 525**	**466**	**152**	—	**618**	**269**
Latin American countries	**3 658**	**2 480**	**71**	—	—	—	—	**21**
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Mexico	3 012	1 919	—	—	—	—	—	—
Panama	25	—	21	—	—	—	—	21
Venezuela	291	385	—	—	—	—	—	—
*Other***	—	50	50	—	—	—	—	—
Asian countries	**1 068**	**2 075**	**2 242**	**426**	**152**	—	**578**	**248**
Hong Kong	70	40	50	—	—	—	—	—
India	271	225	60	—	—	—	—	20
Indonesia	97	412	328	—	—	—	—	37
Korea	323	172	556	55	40	—	95	111
Malaysia	—	807	883	350	—	—	350	63
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	—	—	—	—
Thailand	93	63	255	21	112	—	133	17
Other	85	181	40	—	—	—	—	—
Middle Eastern and African countries	**160**	**448**	**212**	**40**	—	—	**40**	—
Egypt	—	75	—	40	—	—	40	—
Israel	117	200	135	—	—	—	—	—
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	—	—	—	—	—
Centrally planned countries	**75**	**65**	**75**	—	—	—	—	—
China	—	65	50	—	—	—	—	—
Hunga-y	20	—	—	—	—	—	—	—
*Other****	55	—	25	—	—	—	—	—
International organizations****	**7 163**	**9 912**	**13 410**	**918**	**1 426**	**365**	**2 709**	**2 687**
Total	**52 985**	**78 042**	**76 156**	**8 721**	**11 330**	**6 215**	**26 266**	**20 077**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1980 Dec	1981 Dec	1982 Dec	1983 Jul	1983 Aug	1983 Sep	1983 Oct	1983 Nov	1983 Dec	1984 Jan	1984 Feb
United States companies											
Eurodollar	n.a.	n.a.	11.16	11.57	11.50	11.13	11.29	11.41	11.59	11.43	11.77
Euro-German mark	n.a.	n.a.	7.24	7.42	8.04	7.35	7.23	7.23	7.34	7.34	7.26
Swiss franc	n.a.	n.a.	5.61	5.88	5.83	5.78	5.75	5.73	5.73	5.58	5.61
European governments											
Eurodollar	n.a.	n.a.	12.53	12.90	12.67	12.40	12.44	12.52	12.65	12.33	12.58
Euro-German mark	n.a.	n.a.	8.10	8.23	8.19	8.18	8.05	8.07	8.12	8.08	7.63
Swiss franc	n.a.	n.a.	5.30	5.59	5.72	5.61	5.52	5.52	5.59	5.43	5.33

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	1982	1983	1984			Jan-Mar	
				Jan	Feb	Mar	1984	1983
Industrial countries	**86 022**	**42 571**	**38 526**	**9 693**	**2 643**	**26 969**	**39 305**	**10 064**
Australia	1 680	4 721	2 911	91	45	116	252	735
Belgium	360	1 172	883	—	—	—	—	—
Canada	4 112	3 838	967	640	—	—	640	—
Denmark	1 661	789	1 586	8	10	—	18	1 300
Finland	463	631	283	—	—	—	—	25
France	3 912	5 703	1 700	133	—	—	133	582
Greece	1 039	770	1 085	—	—	350	350	520
Ireland	1 361	401	764	—	—	—	—	41
Italy	6 030	3 757	2 979	365	253	181	799	907
Norway	713	1 769	1 236	—	—	—	—	204
Portugal	1 590	1 388	913	—	179	40	219	—
South Africa	287	1 479	752	—	100	—	100	550
Spain	3 242	1 849	3 041	154	249	195	598	894
Sweden	1 867	649	3 188	—	—	—	—	2 060
United Kingdom	747	1 635	1 328	10	750	—	760	310
United States	54 784	6 516	12 948	8 142	1 050	26 020	35 212	1 183
Yugoslavia	684	719	615	—	—	—	—	600
*Other**	1 490	4 785	1 347	150	7	67	224	153
Developing countries	**45 264**	**41 519**	**32 905**	**7 860**	**1 414**	**911**	**10 185**	**15 561**
Latin American countries	**30 152**	**26 719**	**15 406**	**6 530**	**170**	—	**6 700**	**9 841**
Argentina	2 534	1 565	1 750	—	—	—	—	—
Brazil	5 751	5 716	4 475	6 500	—	—	6 500	4 475
Chile	2 204	1 194	1 319	—	—	—	—	—
Colombia	1 030	741	549	—	170	—	170	—
Ecuador	934	815	431	—	—	—	—	—
Mexico	7 530	7 953	5 138	—	—	—	—	5 100
Peru	1 407	1 069	500	—	—	—	—	16
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	1 203	867	1 007	30	—	—	30	13
Asian countries	**10 288**	**8 403**	**8 824**	**1 162**	**728**	**732**	**2 622**	**4 005**
India	377	284	809	50	—	—	50	461
Indonesia	725	1 250	1 467	750	15	—	765	1 146
Korea	2 824	2 923	3 250	105	298	632	1 035	870
Malaysia	1 725	1 909	950	—	150	—	150	560
Pakistan	350	455	365	—	—	—	—	73
Philippines	1 257	635	815	—	—	—	—	585
Thailand	692	268	349	—	245	—	245	18
Other	2 338	679	819	257	20	100	377	292
Middle Eastern and African countries	**4 824**	**6 397**	**8 675**	**168**	**516**	**179**	**863**	**1 715**
Algeria	—	26	1 934	—	—	—	—	—
Egypt	63	353	335	—	—	—	—	—
Morocco	774	326	226	20	75	—	95	25
Nigeria	1 802	2 042	1 775	—	—	—	—	33
Turkey	100	277	1 078	—	350	—	350	140
United Arab Emirates	363	93	876	—	—	—	—	690
Other	1 722	3 280	2 451	148	91	179	418	827
Centrally planned countries	**1 791**	**765**	**1 212**	**150**	**429**	—	**579**	**218**
East Germany	470	8	392	—	—	—	—	—
Hungary	550	340	683	—	352	—	352	218
Soviet Union	25	374	68	150	—	—	150	—
*Other****	746	43	69	—	77	—	77	—
International organizations****	**302**	**160**	**1 321**	—	—	—	—	**21**
Total	**133 379**	**85 015**	**73 964**	**17 703**	**4 486**	**27 880**	**50 069**	**25 864**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977	1978	1979	1980	1981	1982		1983		
						Sep	Dec	Mar	Jun	Sep
Gross market size	740	949	1 233	1 524	1 861	2 017	2 057	2 086	2 056	2 133
Nonbanks	135	174	245	327	428	468	474	472	489	515
Official monetary institutions	100	115	145	150	132	105	90	90	84	90
Other banks	505	660	843	1 047	1 301	1 444	1 493	1 524	1 483	1 528
Eurodollars as % of gross	76	74	72	75	78	81	79	80	80	80

Central bank discount rates

at or near end of month

	1980	1981	1982	1983				Current	
	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar 29 1984	effective since
United States	13.00	12.00	8.50	8.50	8.50	8.50	8.50	8.50	Dec 15, 82
Canada	17.36	14.66	10.05	9.42	9.42	9.49	9.96	10.78	Mar 29, 84
Austria	6.75	6.75	4.75	3.75	3.75	3.75	3.75	3.75	Mar 18, 83
Belgium	12.00	15.00	11.50	11.00	9.00	9.00	10.00	11.00	Feb 16, 84
Denmark	11.00	11.00	10.00	8.50	7.50	7.50	7.00	7.00	Oct 27, 83
Finland	9.25	9.25	8.50	8.50	8.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	7.50	5.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 73
Ireland	12.75	17.15	14.35	14.35	13.80	12.20	11.50	11.50	Nov 11, 83
Italy	16.50	19.00	18.00	18.00	17.00	17.00	17.00	16.00	Feb 15, 84
Netherlands	8.00	9.00	5.00	3.50	4.50	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	9.00	9.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	18.00	19.00	23.00	23.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	12.00	11.00	10.00	9.00	8.50	8.50	8.50	8.50	Apr 8, 83
Switzerland	3.00	6.00	4.50	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.00	14.37	10.00	10.50	9.56	9.50	9.00	9.00	Oct 4, 83
Japan	7.25	5.50	5.50	5.50	5.50	5.50	5.00	5.00	Oct 22, 83
New Zealand	14.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	7.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 12, 81
Argentina	87.01	98.50	128.54	145.29	161.87	183.75	183.75	134.13	Feb 1, 84
Korea	15.01	10.50	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	10.50	9.50	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	13.50	14.50	12.50	11.50	11.50	11.50	13.00	13.00	Dec 9, 83
Venezuela	13.00	14.00	13.00	13.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983						1984	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	18.90	12.37	8.95	9.37	9.56	9.45	9.48	9.34	9.47	9.56	9.59
Canada	15.61	14.53	10.63	9.31	9.35	9.25	9.35	9.43	8.78	9.60	9.63
Austria	11.50	7.50	6.00	5.00	5.00	5.00	5.62	5.62	5.75	5.87	5.87
Belgium	9.68	12.78	9.43	7.49	7.61	6.38	6.89	8.58	8.65	8.03	7.57
Finland	12.50	11.30	11.50	15.00	15.00	16.67	16.95	16.70	16.70	17.50	17.50
France	10.87	15.46	12.88	12.40	12.54	12.56	12.35	12.37	12.27	12.39	12.30
Germany	9.13	10.65	6.07	5.04	5.07	5.43	5.53	5.59	5.60	5.61	5.55
Ireland	13.31	16.88	14.54	13.75	12.50	12.62	11.00	12.25	12.19	12.12	11.25
Italy	17.50	20.63	19.00	17.75	17.88	17.69	17.75	17.79	17.88	17.91	17.67
Netherlands	8.37	10.67	5.31	5.29	5.77	5.68	5.82	5.70	5.84	5.77	6.12
Norway	11.00	18.60	11.00	12.00	12.70	12.30	13.50	13.00	13.00	12.80	11.45
Spain	16.74	18.73	20.30	21.05	23.33	19.85	20.27	18.56	16.41	10.16	12.14
Sweden	11.41	13.82	8.63	11.00	10.15	11.30	12.00	11.97	11.48	11.36	10.90
Switzerland	5.75	3.38	1.25	3.00	2.00	2.00	1.75	1.62	1.88	1.00	1.62
United Kingdom	13.00	9.13	6.70	6.60	6.31	7.30	7.81	7.06	7.77	7.31	7.12
Australia	9.51	12.84	11.04	9.84	10.13	9.80	9.03	9.31	4.56	7.09	9.05
Japan	9.49	6.70	6.92	6.39	6.46	6.53	6.43	5.93	6.47	6.05	6.04
South Africa	5.60	12.34	12.90	12.29	13.62	13.43	13.66	14.24	15.63	16.17	16.19
Argentina	70.84	84.93	155.32	210.04	106.40	175.30	178.30	178.30	178.30	138.61	128.53
Brazil	62.71	103.74	150.42	224.98	207.06	193.91	192.62	193.91	184.69	224.27	295.48
Hong Kong	14.05	10.75	9.13	7.00	6.81	13.25	18.00	10.00	13.90	7.25	3.31
Korea	14.82	14.40	13.84	12.70	12.70	12.80	12.80	12.90	11.40	11.30	10.50
Philippines	15.70	14.70	16.12	13.59	15.56	16.54	24.23	18.96	31.18	n.a.	n.a.
Singapore	10.23	3.96	11.45	8.08	6.33	6.51	7.02	7.23	7.05	6.92	6.83

Treasury bill rates

bond equivalent yields, at or near end of month

	1980	1981	1982	1983						1984	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	14.87	11.90	8.15	9.50	9.52	9.05	8.92	9.05	9.28	9.20	9.48
Canada	17.01	14.41	9.80	9.24	9.32	9.24	9.24	9.38	9.71	9.73	9.82
Belgium	12.75	16.00	12.25	9.25	9.25	9.25	9.50	10.85	10.85	10.85	12.25
Ireland	12.84	17.35	14.70	13.09	13.01	12.12	11.96	11.66	11.63	11.80	12.16
Italy	16.87	21.36	19.11	17.35	17.24	17.18	17.08	17.05	16.95	15.74	15.89
Netherlands	8.00	9.75	5.62	5.38	6.00	5.87	5.62	5.62	5.63	5.75	6.12
Spain	n.a.	n.a.	15.28	14.51	14.64	14.60	14.52	14.53	14.46	13.61	13.66
Sweden	n.a.	n.a.	12.90	11.60	11.55	12.20	12.10	12.10	11.75	11.10	11.15
United Kingdom	13.45	15.31	9.90	9.40	9.57	9.21	8.89	9.08	9.08	9.08	9.08
Australia	12.17	13.27	9.39	10.59	10.96	10.34	9.38	9.32	8.54	9.43	10.35
Japan	5.93	5.42	5.42	5.42	5.42	5.42	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	11.25	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
South Africa	6.31	14.55	14.62	14.46	16.19	14.91	15.66	17.47	18.43	18.55	18.57
Brazil	65.87	92.62	115.40	174.00	197.30	163.92	179.15	179.15	179.15	179.15	179.15
Mexico	27.73	33.33	57.44	61.10	57.89	56.17	54.50	53.85	n.a.	n.a.	n.a.
Philippines	12.74	13.40	14.53	14.03	14.48	14.71	15.04	15.56	15.98	n.a.	n.a.
Singapore	6.77	3.03	2.74	2.59	2.58	2.65	2.63	2.62	2.59	2.67	2.65

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1980	1981	1982	1983						1984	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	17.62	12.78	8.81	9.57	9.52	9.36	9.26	9.31	9.75	9.36	9.68
Canada	17.50	15.25	9.95	9.40	9.50	9.40	9.40	9.60	9.87	9.85	9.95
Belgium	13.10	16.00	12.35	9.25	9.25	9.25	9.50	10.75	11.00	11.00	12.50
France	11.56	15.25	12.75	12.13	12.25	12.50	12.19	12.31	12.19	12.25	12.54
Germany	10.20	10.50	6.20	5.50	5.85	5.80	6.15	6.25	6.30	6.10	5.85
Ireland	13.62	18.50	15.75	13.87	13.38	12.69	12.53	12.37	12.19	12.25	12.56
Italy	17.37	21.00	19.00	17.50	17.60	17.50	17.63	17.88	17.88	17.88	17.00
Netherlands	9.37	11.00	5.25	5.69	5.31	6.25	6.12	6.31	6.00	5.94	6.00
Portugal	11.00	13.80	15.04	17.00	20.24	22.30	23.00	24.17	24.11	24.06	23.79
Spain	17.40	15.52	16.55	22.48	24.04	22.06	22.19	20.29	18.48	17.30	18.30
Switzerland	7.50	10.12	3.67	5.00	4.75	4.25	4.25	4.25	3.87	3.62	3.75
United Kingdom	14.75	15.69	10.50	10.06	9.75	9.56	9.31	9.25	9.31	9.37	9.21
Australia	13.00	16.00	10.65	12.10	12.20	11.15	11.00	10.60	9.50	11.00	13.00
Japan	9.80	6.30	6.80	6.59	6.61	6.62	6.30	6.42	6.42	6.30	6.40
New Zealand	14.25	16.05	16.75	12.75	10.25	10.00	10.75	12.00	12.10	13.85	15.00
South Africa	7.12	15.47	15.26	14.94	16.61	16.45	16.94	18.19	19.12	19.07	19.01
Chile	26.79	34.54	71.44	25.34	23.87	25.34	25.34	25.34	22.42	19.56	14.03
Hong Kong	17.69	14.18	10.13	9.87	8.94	12.75	16.88	11.50	12.84	11.37	7.87
Indonesia	12.54	14.48	18.50	14.50	15.00	16.50	15.00	15.00	19.50	19.00	20.50
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.41	9.50	8.50	7.85	8.40	8.10	8.20	8.65	9.80	9.47	8.51
Philippines	15.01	17.61	15.89	15.96	15.62	16.49	18.26	17.34	15.60	n.a.	n.a.
Singapore	14.12	7.81	8.69	7.87	7.37	7.37	7.50	7.62	8.44	7.75	7.75
Taiwan	14.49	10.94	9.94	8.98	9.27	8.37	7.82	7.26	7.65	9.22	9.42
Thailand	16.55	14.29	12.25	12.00	12.75	14.00	14.25	14.50	16.00	16.50	17.00

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983						1984	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	16.25	12.62	8.25	9.65	9.65	9.20	9.30	9.30	9.70	9.40	9.77
Canada	17.00	15.20	9.85	9.35	9.45	9.35	9.35	9.50	9.82	9.80	9.90
Austria	11.25	9.63	6.25	5.31	5.56	6.06	6.31	6.37	6.50	6.50	6.25
Belgium	12.63	15.50	12.25	9.12	9.25	9.50	9.38	11.25	11.25	10.87	12.37
Denmark	10.00	10.00	9.00	6.50	6.50	6.50	6.00	6.00	6.00	6.00	6.00
Finland	5.00	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	11.25	9.16	8.24	8.24	7.30	7.80	7.70	7.70	7.66	7.72	n.a.
Germany	8.00	9.50	6.00	4.90	4.90	5.63	5.60	5.80	5.90	5.65	5.40
Ireland	13.62	18.38	15.25	13.50	13.13	12.25	12.50	12.25	11.75	11.87	12.37
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	9.50	11.00	5.37	5.63	5.25	6.12	6.06	6.19	6.13	5.94	6.00
Norway	11.00	12.75	13.50	12.50	12.50	12.50	12.50	12.50	12.75	13.00	12.50
Portugal	12.00	14.00	15.00	19.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50
Spain	4.50	11.78	12.53	12.28	12.28	12.24	12.08	12.50	12.62	n.a.	n.a.
Sweden	13.20	12.65	12.15	11.30	12.20	12.05	12.20	12.30	11.70	11.00	11.10
Switzerland	7.50	8.75	3.00	4.00	3.75	3.75	3.50	3.50	3.50	3.25	3.25
United Kingdom	14.87	15.69	10.31	10.06	9.78	9.50	9.25	9.22	9.31	9.37	9.25
Australia	12.71	15.65	10.20	12.05	11.88	10.56	10.96	10.35	10.40	11.25	12.20
Japan	9.00	6.50	7.00	6.80	6.83	6.88	6.45	6.60	6.50	6.52	6.63
New Zealand	13.50	15.50	16.50	10.00	9.00	9.00	9.50	10.75	11.50	13.75	10.00
South Africa	7.87	14.75	15.25	14.95	16.62	17.00	17.00	18.43	20.13	19.45	18.88
Argentina	72.00	86.76	103.42	127.75	139.92	176.41	176.41	176.41	176.41	139.91	121.66
Brazil	54.00	110.05	21.00	23.00	24.50	25.00	26.00	24.00	23.00	26.00	25.00
Chile	39.45	36.87	57.72	24.31	24.75	25.19	25.19	25.19	22.28	19.74	12.95
Hong Kong	13.00	12.50	7.50	8.50	8.50	12.00	10.00	9.00	9.00	7.00	5.50
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	6.00	6.00
Malaysia	8.60	10.00	8.40	6.80	6.80	7.15	7.15	7.60	7.75	7.75	7.75
Mexico	26.15	31.82	52.54	59.25	57.33	56.38	55.20	54.84	54.70	54.50	n.a.
Philippines	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	13.19	7.50	8.25	7.44	6.88	6.81	7.07	7.19	7.44	7.13	7.19
Taiwan	10.25	10.75	7.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Thailand	9.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	16.00	14.75	15.50	13.50	13.00	12.50	12.00	12.00	12.00	11.50	11.50

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983						1984	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	11.46	14.33	10.61	11.95	11.77	11.65	11.85	11.89	12.00	11.72	12.13
Canada	12.69	15.27	11.69	12.03	12.34	11.76	11.73	11.80	12.02	11.92	12.40
Austria	9.62	10.37	8.81	8.18	8.31	8.32	8.16	8.06	8.02	7.96	n.a.
Belgium	13.04	13.99	12.66	11.42	11.46	11.39	11.32	11.75	11.89	11.97	12.35
Denmark	19.98	20.91	20.14	15.56	14.92	14.19	13.95	14.22	12.96	13.39	n.a.
Finland	10.42	10.98	10.64	10.58	11.20	10.97	11.19	11.16	11.16	11.17	10.62
France	14.31	16.44	15.40	14.04	13.96	14.03	14.15	14.12	13.96	13.76	13.78
Germany	9.19	9.71	7.90	8.27	8.55	8.43	8.30	8.34	8.38	8.33	8.13
Ireland	15.63	18.28	14.54	13.81	13.60	13.72	13.82	13.72	14.25	13.94	14.16
Italy	16.23	21.39	19.70	18.42	18.11	17.82	17.65	17.78	17.69	17.09	16.33
Netherlands	10.48	11.28	8.16	9.08	9.03	8.80	8.53	8.57	8.58	8.57	8.56
Norway	10.44	12.37	13.32	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.25
Portugal	17.19	17.39	16.63	19.30	21.57	21.97	22.05	22.80	n.a.	n.a.	n.a.
Spain	16.15	16.20	15.92	17.60	18.31	18.76	19.47	19.50	18.71	18.33	n.a.
Sweden	12.61	12.80	13.01	11.85	11.24	12.20	12.24	13.05	12.30	11.70	11.50
Switzerland	4.63	5.40	4.22	4.76	4.73	4.71	4.61	4.62	4.52	4.31	4.38
United Kingdom	13.05	15.02	10.62	10.71	10.65	10.15	10.13	9.93	9.94	9.97	10.04
Australia	13.00	15.00	13.00	15.00	14.60	14.40	13.70	13.40	13.65	13.70	14.05
Japan	9.04	8.32	7.76	7.87	7.80	7.58	7.51	7.39	7.19	7.20	7.06
New Zealand	12.99	12.55	12.84	14.02	10.41	10.13	10.58	10.61	10.53	n.a.	n.a.
South Africa	11.81	13.33	11.31	13.29	13.40	13.14	13.29	13.60	13.70	14.18	13.52
Philippines	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
Venezuela	7.39	12.50	15.00	15.00	15.00	14.00	14.00	14.00	13.50	13.00	13.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983						1984	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	21.50	15.75	11.50	10.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Canada	18.25	16.50	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Austria	12.50	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	15.75	18.00	15.50	12.50	12.50	12.50	12.50	13.25	13.75	13 75	14.75
Denmark	13.75	15.00	14.00	10.50	10.50	10.50	10.50	10.00	10.00	10.00	10.00
Finland	9.83	9.84	8.95	10.07	10.10	10.16	10.14	10.15	10.18	10.30	n.a.
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	14.50	17.25	16.50	15.00	15.00	13.75	13.75	13.75	13.75	13.75	13.75
Italy	20.50	22.50	20.75	18.75	18.75	18.75	18.75	18.75	18.75	18.50	18.50
Netherlands	10.75	12.00	6.25	6.25	6.75	7.00	6.75	6.50	7.00	6.75	6.75
Norway	12.50	13.75	14.50	13.38	13.13	13.50	13.25	13.75	13.50	13.63	13.75
Portugal	18.75	20.50	23.50	27.50	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Spain	18.50	17.04	19.00	23.47	25.19	24.09	23.70	22.87	20.85	20.01	n.a.
Sweden	14.00	15.00	15.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
Switzerland	5.75	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.00	14.50	10.00	9.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00
Australia	13.50	15.75	15.00	14.50	14.50	14.00	13.25	13.25	12.75	11.50	13.00
Japan	8.16	6.95	6.28	6.25	6.24	6.23	6.23	6.08	5.89	5.89	5.70
New Zealand	13.00	13.00	13.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
South Africa	9.50	17.00	18.00	16.00	18.00	18.00	18.00	19.00	20.00	20.00	20.00
Argentina	77.00	92.60	109.50	240.00	152.08	188.58	188.58	188.58	188.58	152.08	133.83
Brazil	120.10	152.40	23.81	24.00	24.00	24.00	24.00	24.00	24.00	24.00	24.00
Chile	49.55	61.43	85.19	43.14	37.50	39.83	40.60	40.40	35.11	31.43	22.75
Hong Kong	17.00	16.00	10.50	11.50	11.50	16.00	15.00	13.50	13.50	11.50	10.00
Indonesia	21.00	19.25	22.00	22.00	19.00	19.50	19.50	19.50	19.75	20.00	21.25
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	8.50	12.00	12.50	10.75	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Mexico	24.25	31.81	46.12	58.73	58.23	57.78	57.14	56.82	56.44	55.95	55.16
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	13.60	11.83	9.33	9.00	9.00	8.95	8.93	8.93	8.98	9.05	9.03
Taiwan	16.20	15.25	10.75	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25
Thailand	16.50	17.00	16.00	16.00	15.50	15.50	15.50	15.50	16.00	16.00	16.50
Venezuela	15.00	15.50	17.00	16.50	16.25	16.00	16.00	16.00	16.00	16.00	14.50

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983						1984	
	Dec	Dec	Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
United States	13.00	15.50	11.75	12.75	12.50	12.25	12.63	12.38	12.63	12.38	12.88
Canada	13.53	16.18	12.74	13.03	13.13	12.54	12.57	12.58	12.89	12.78	13.27
France	15.23	17.33	15.91	14.76	14.48	14.36	14.62	14.30	14.06	13.96	n.a.
Germany	9.50	10.50	8.20	8.00	8.10	8.30	8.30	8.30	8.30	8.30	8.00
Netherlands	10.71	11.03	7.80	8.75	8.79	8.68	8.39	8.53	8.51	8.44	8.39
Norway	11.24	13.36	14.13	13.25	12.25	13.25	13.25	13.25	13.25	13.25	13.00
Spain	14.82	14.76	17.10	18.00	19.59	20.05	20.37	20.03	19.84	20.19	20.69
Sweden	11.95	12.94	13.37	12.85	12.77	12.99	12.40	12.51	12.21	12.15	n.a.
Switzerland	n.a.	n.a.	4.87	4.88	5.08	5.07	4.94	4.94	4.94	4.93	n.a.
United Kingdom	14.21	16.65	12.34	12.34	12.27	11.89	11.84	11.51	11.57	11.52	11.61
Australia	14.25	16 50	15.00	15.75	15.50	15.00	15.00	15.00	13.50	14.00	14.50
Japan	8.60	7.70	7.55	7.34	7.32	7.30	7.29	7.27	7.09	7.05	7.04
Korea	28.20	26.90	15.90	13.90	13.90	14.20	14.10	14.20	14.20	14.30	14 00
Venezuela	16.15	17.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	17.50

Key to data in tables

I. International markets

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

The *country of the borrower* is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

Data on *Eurocurrency market size* are based on foreign currency liabilities of banks in major European countries, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States (international banking facilities only).

II. Domestic markets

Day-to-day money rates

Argentina—7-day interbank money regulated by the Central Bank.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — interbank overnight money.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit used for monetary correction until March 1982. New series as of April 1982, 6-month Treasury bills.

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — 60-day Central Bank promissory notes (PDBC).

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

Taiwan — interbank call money.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — 3-month time deposits.

Portugal — 90- to 180-day time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Key to data in tables — continued

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983. New series, as of September 1983, 20-year Republic of South Africa bonds.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Australia — new issue yields for AA corporate bonds having a maturity of 5- to 7-years.

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — Bundesbank average yield on industrial bonds.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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World Financial Markets

Morgan Guaranty Trust Company of New York

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Mexico: progress and prospects

Mexico has made notable economic and financial progress since it shocked the international financial community in August 1982 by declaring a temporary moratorium on external debt payments. The emergency program arranged late that year averted a breakdown of international financial markets and set the pattern for dealing with the debt-servicing difficulties of other LDCs. Mexico's economic adjustment policies and their implementation under President Miguel de la Madrid are perceived as having been successful. Indeed, Mexican performance has been cited as a showcase for programs supported by the International Monetary Fund.

Foreign commercial banks, encouraged by Mexico's achievements in 1983, completed in April a new loan of $3.8 billion to meet 1984's commercial borrowing needs. In recognition of improved performance, the spreads on this loan are lower, and the maturity and grace period longer, than those of last year's $5 billion loan. Mexico's active role in arranging a $500 million short-term financing package for Argentina with the participation of Brazil, Colombia, Venezuela, and foreign commercial banks affirms its commitment to seeking constructive ways to cope with the worst economic crisis to hit Latin America in five decades.

Mexico's experience provides an instructive case study in macroeconomic adjustment. This article reviews the country's progress to date, analyzes issues facing the authorities in 1984, and explores longer-term challenges that need to be overcome in order for Mexico to achieve adequate and stable economic growth.

Origins of the 1982 crisis

Mexico's balance of payments crisis was the culmination of several years of flawed economic policies supported by unsustainable foreign borrowing. The crisis was precipitated by a sharp deterioration of the current account and massive capital flight. Starting in 1981 the Mexican government failed to respond in a timely and constructive manner to three adverse external events: lower world oil prices, higher international interest rates, and deep recession in the United States — the market that absorbs more than 60% of Mexico's exports of goods and services.

The seeds of the problem were planted in 1978, when the government embarked on very expansionary policies. By full-speed exploitation of newly found, abundant petroleum reserves, oil production and exports were the key ingredients in a high-growth strategy that was spearheaded by heavy public-sector spending. Crude petroleum production rose from 1.2 million barrels per day in 1978 to 2.8 million barrels per day in 1982. The volume of oil exports expanded by about 40% per annum during this period, while their value rose nearly ninefold, from less than $2 billion in 1978 to almost $16 billion in 1982. By that year, roughly three-quarters of merchandise export earnings derived from petroleum, and oil-related receipts provided nearly half of all public-sector revenues. Unrestrained public-sector spending, which far outstripped oil revenues, became the driving force in the economy. Public-sector expenditures rose from 32% of GDP in 1978 to 48% in 1982, and increased the fiscal deficit from 6.7% of GDP in 1978 to 18% in 1982.

As a result of this expansionary economic policy, real GDP growth averaged a record 8.4% per annum between 1978 and 1981. For the first time in recent memory employment expanded faster (5.2% per annum) than the labor force (nearly 4%). The inevitable result, however, was strong pressure on prices and the balance of payments. Inflation was kept just below 30% per annum only by increasing subsidies, tightening price controls, and an artificially strong peso, which encouraged a virtual tripling in merchandise imports and caused non-oil exports to stagnate. The outcome was a growing deficit on current account. This exceeded $16½ billion at an annual rate in the second half of 1981, up from a deficit of only about $3 billion in 1978.

The authorities chose not to abandon their all-out growth policies even when the external environment turned sharply adverse in mid-1981. Instead they resorted to even higher levels of foreign borrowing. Confidence in the government's economic policies eventually disappeared as such corrective measures as import restrictions and peso devaluations proved ineffectual in reversing basic trends. Capital flight, already significant for several years, increased sharply with the fear of further devaluations and exchange controls. Capital outflows exceeded $9 billion in 1982, for a cumulative total of more than $25 billion for 1978-82. In the end, external borrowing sufficient to finance these current and capital account gaps could not be procured, and by August 1982 the country's foreign exchange resources were depleted. Between end-1978 and mid-1982, Mexico's external debt ballooned by over $50 billion to more than $85 billion, or about 280% of the country's exports of goods and services. Moreover, the maturity of this debt had steadily shortened as lender confidence waned, so that by the time the temporary moratorium was declared close to one-third of the total debt was short term.

The 1983 adjustment program

The cornerstone of the stabilization strategy adopted by President de la Madrid's government has been an adjustment program developed within the context of a three-year, $3.9 billion Extended IMF Facility. This program enabled Mexico to negotiate with its commercial bank creditors a new-money facility of $5 billion disbursed during 1983 and the rescheduling of nearly $23 billion of public-sector, short- and medium-term external debt falling due through the end of 1984. In addition, through a scheme known as FICORCA, provision was made for the restructuring of nearly $12 billion of

Table 1

Main quarterly targets of the 1983 economic adjustment program

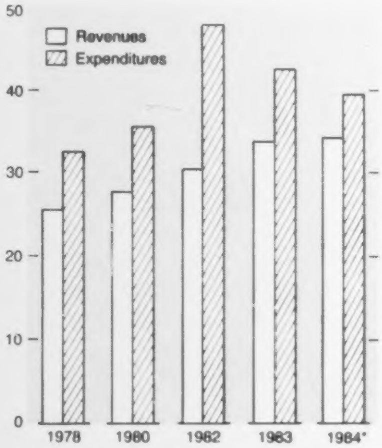
end-of-period data

	Q1	*Q2*	*Q3*	*Q4*
Central bank claims on the nonfinancial public sector (billions of pesos)				
Target ceiling	2.4	2.6	2.7	3.0
Actual	2.3	2.4	2.4	3.0
Net domestic assets of the central bank (billions of pesos)				
Target ceiling	0.6	0.6	0.6	0.7
Actual	0.4	0.3	0.0	0.5
Public-sector external debt ($ billions)				
Target ceiling	68.0	69.3	70.6	71.8
Actual	67.8	68.6	67.6	71.5
Net international reserves of the central bank ($ billions)				
Target	—0.5	0.0	0.5	1.5
Actual	0.8	1.4	3.1	5.0

Chart 1

Public-sector revenues and expenditures

as percent of GDP



*Approved budget excluding contingency allocation

private short- and medium-term debt, about two-thirds of the total.

The objective of the stabilization program was to reestablish internal and external equilibrium through a combination of restrictive fiscal, wage, and monetary policies, and modifications of other key prices in the economy, principally the exchange rate and interest rates. Quarterly performance criteria to monitor progress were agreed with the IMF (see Table 1). Fiscal policy aimed to cut the public-sector deficit to 8.5% of GDP through expenditure reductions, revenue increases in public-sector entities, higher levies on domestic oil consumption, and an increased value added tax.

The fiscal objective was met. Public-sector expenditures fell over 5% relative to GDP, while receipts increased by nearly 4% of GDP (see Chart 1). Although interest payments increased over 40% in real terms, and accounted for nearly one-third of total public-sector expenditure, there were cutbacks in real terms in practically all other major spending categories, most notably in subsidies. These were brought down 40% in real terms through major hikes in the controlled prices of petroleum products, electricity, and foodstuffs. The government's more realistic pricing policy, including the partial elimination of widespread price controls, improved resource allocation by restraining consumption of key goods such as oil products and electricity. Besides the cutback in current spending, public-sector capital outlays were slashed 30% in real terms.

Reduction in real wages was critical to the improvement of public finances. The public-sector wage bill dropped 20% in real terms, the equivalent of nearly two percentage points of GDP. The government was able to elicit the cooperation of the labor union movement to keep nominal wage increases below inflation. In return, price increases on basic foods were trimmed to avoid too drastic a reduction in the consumption standards of a large part of the population. Even so, minimum wages in real terms fell over 16% in 1983, for a cumulative drop of 26% since 1981 (see Chart 2). This set the tone for private- and public-sector wage adjustments, and helped to minimize the drop in employment throughout the economy.

Monetary policy aimed at increasing the proportion of domestic savings channeled through the banking system and at limiting credit expansion with the help of a smaller public-sector deficit. Interest rates on most financial instruments were raised early in 1983 in line with expected levels of inflation. They remained negative in real terms during the early part of the year as inflation accelerated, but turned positive in the second half as it abated. Savings deposited in banks rose 66%, but still lagged behind inflation. They thus declined in real terms, although to a lesser extent than in the previous year. The 52% credit expansion to the private sector was held down by the drop in economic activity, and contributed to considerable liquidity in the banking system. Net financing to the public sector registered only a 43% growth (compared with 139% a year earlier) and was instrumental in cutting by nearly half the expansion of the monetary base. In all, the IMF targets for overall credit expansion by the central bank were met.

The introduction of exchange controls and the major devaluations of 1982 resulted in a dual exchange rate system. It consists of a lower, controlled rate applicable to merchandise exports, debt servicing, and most imports, and a higher so-called free rate for most services and other payments. On a real effective basis, the controlled exchange rate depreciated by nearly 37% be-

Chart 2

Average real wages
annual percent change

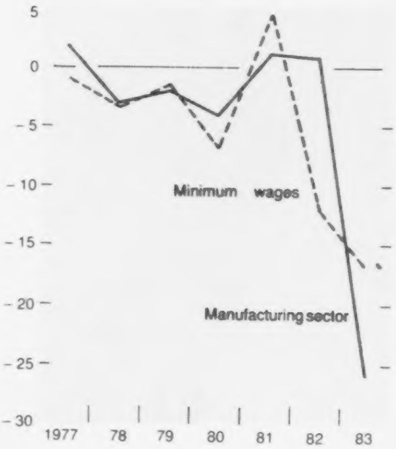
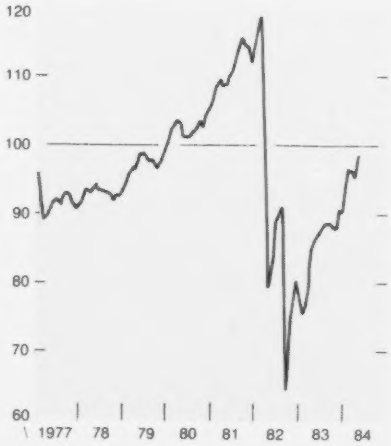


Chart 3

Real effective peso exchange rate
index, 1980-82 = 100



tween January and December 1982 (see Chart 3). Since then, it has been devalued daily by 13 Mexican cents per dollar — not enough, however, to compensate for the inflation differential between Mexico and its main trading partners. As a result, the real effective peso exchange rate appreciated nearly 14% in 1983, giving up more than half the 1982 gain in international price competitiveness. The "free" rate, originally set about 55% higher than the controlled rate, was held fixed until late September 1983 when the central bank began to devalue it by the same daily amount as the controlled rate. As a result, the differential narrowed to 12%.

This combination of fiscal, wage, monetary, and exchange rate policies contributed to an unprecedented real GDP decline of 4.7% in 1983, considerably worse than the assumption of zero growth made at the beginning of the program. However, toward the end of last year the rate of decline of industrial output slowed significantly (see Chart 4). Although inflation had been originally assumed to fall from almost 100% in 1982 to 55% by year-end 1983, it closed the year at 80.8% (see Chart 5). The pace of inflation, however, slowed during the second half of the year to an annualized 64%. The difference in actual versus officially forecasted output and inflation performance can be attributed to an initial underestimation of the gravity of the fiscal imbalance and the magnitude of the exchange rate and price adjustments that were required to achieve the public-sector deficit reduction and to bring stability to the foreign exchange market.

The most striking results of Mexico's adjustment program showed in the balance of payments. Last year the current account balance swung into a surplus of $5.5 billion, far better than the $3.4 billion deficit originally expected (see Table 2). This stemmed from a large drop in merchandise imports, to only $7.7 billion in 1983, far below the $15.2 billion initially projected and a full 68% down from the peak level registered in 1981.

Merchandise exports barely held their own last year. Crude oil export revenues declined 5% to $14.8 billion. Volume rose nearly 3%, but the average realized price fell 8%. Among non-oil exports, only manufactured exports recorded vigorous expansion (22%), led by steel and metal products. Actual non-oil exports almost certainly increased more than indicated by the official figures which do not reflect under-invoicing, stimulated by the dual exchange rate regime and the existence of an even more attractive rate in the uncontrolled market for pesos outside Mexico.

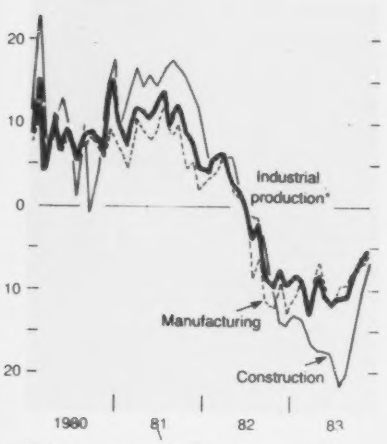
The current account turnaround, together with the restructuring of public short- and medium-term debt payments and the $5 billion commercial bank loan arranged in 1983, permitted a $3.1 billion increase of gross foreign exchange reserves, which reached a level of $4.9 billion at year-end. In contrast to the turnaround in the current account, there were no net reflows of private capital. Indeed, there were net outflows amounting to almost $5 billion, partly through debt payments by private firms via the free peso market, and the nonremittance of earnings on assets held abroad by Mexican residents. The full-year 1983 figure may well have included spillover of capital flight spurred by the 1982 crisis, for example, the repatriation of investments held by nonresidents in so-called Mex-dollar deposits.

Policy challenges in 1984

Mexico's remarkable progress last year entailed considerable short-

Chart 4

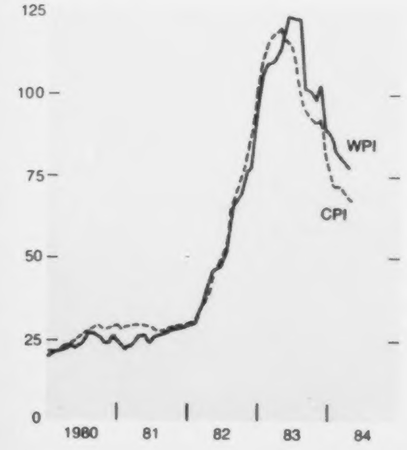
Industrial production
monthly data,
percent change from previous year



*Includes mining, manufacturing, construction and electric power

Chart 5

Consumer and wholesale prices
monthly data,
percent change from previous year



term costs in terms of employment and incomes. The country's political leadership and institutions were and will continue to be tested. The enormous problems they face in the areas of demand management and resource allocation cannot be quickly corrected. The task is not made easy in view of the internal pressures for early relief from high inflation and deep recession, not to mention political opposition to the government party. Perseverance with corrective policies is essential, however, if the full long-term benefits of the adjustment program are to be reaped, and confidence fully restored, both at home and abroad.

This year, through steady, conservative management of aggregate demand, the stabilization program aims for an upturn in domestic economic activity — yielding at least 1% real GDP growth and a recovery of private-sector investment — along with a reduction of inflation to 40% on a year-end basis. The achievement of both objectives is to be supported by a significant expansion of imports, by as much as 75% above 1983 levels, even though this is anticipated to wipe out the current account surplus.

Progress on the fiscal front is to be maintained, as evidenced by a target deficit for the public sector of 5.5% of GDP, down from 8.7% in 1983. The bulk of this improvement is to come from continued containment of expenditures, principally operational outlays. Further price hikes for public goods and services, either above or in line with inflation, will increase revenues in real terms.

Although the cutbacks required to meet this year's fiscal objectives are considerably smaller than in 1983, for several reasons they will be just as difficult to achieve. First, interest payments on both domestic and external debt now account for nearly a third of total spending. Second, the investment budget already has been pruned, so that the scope for further cuts is much reduced. Third, following last year's major real wage reductions, labor unions can be expected to resist additional losses, thus making difficult any significant lowering in the government's real wage bill. Fourth, the sense of urgency prevalent a year ago has diminished and administrators throughout the public sector have become both more identified with their respective programs and more aware of pressures for economic recovery. Notwithstanding these obstacles, the authorities remain committed to slashing the fiscal deficit in line with the agreed target.

Wage policy under the program calls for salary adjustments to be kept in line with expected inflation. An improvement in real wages is not contemplated at this time, although living standards of the lowest-paid workers are to be protected by concentrating the remaining subsidies on basic consumer goods. A critical test for wage policy will come shortly when the midyear wage adjustments are decided. Actual inflation, 80% at an annual rate in the first four months of 1984, is running considerably ahead of the 40% inflation objective embodied in this year's program. Failure to compensate for most of the gap between actual and anticipated inflation would, of course, imply yet another fall in real wages — a trend likely to be resisted by the Mexican Workers Confederation, until now a key cooperative force in Mexico's stabilization effort. Nominal wage increases higher than originally budgeted, however, would set back efforts to contain public-sector expenditures.

Monetary policy in 1984 aims to support the inflation and growth objectives of the program. The targeted 30% increase of net credit to the public sector is to be kept below the expected inflation rate. It is to be funded through noninflationary

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Table 2

Balance of payments

$ billions

	1982	*1983*	*1984**
Merchandise exports	21.2	21.4	22.1
Merchandise imports	—14.4	—7.7	—11.9
Trade balance	6.8	13.7	10.2
Interest payments	—11.3	—9.9	—11.7
Other services and transfers	—0.4	1.7	2.6
Current account balance	—4.9	5.5	1.0
Net capital flows	0.2	—2.3	2.0
Change in gross reserves	—3.2	3.1	3.0

*Estimated.

sources. This credit expansion is consistent with the projected reduction in the fiscal deficit, and would finance about three-fifths of the fiscal deficit. External financing would cover the remainder. Credit to the private sector is envisaged to grow in real terms by the equivalent of nearly 1% of GDP to support the expected private-sector recovery.

Interest rates are to be kept positive in real terms for most financial savings instruments, as they were during a good part of 1983. Reforms are to be undertaken in the structure of reserve requirements, in the cost of preferential credit, and in the pricing of banking services. These reforms should lessen distortions in credit allocation and reduce the large spread between current deposit and lending rates.

The most problematic of the monetary objectives will be the maintenance of positive real interest rates, which are indispensable to stimulate domestic savings and discourage capital flight. Indeed, there is concern among officials that the current level of interest rates, though below the rate of inflation in the first four months, may be too high to permit the recovery of private-sector investment spending. Any attempts to bring down interest rates ahead of actual inflation, however, would jeopardize a much-needed rise in real terms of domestic savings held in the banking system. Besides, it is not clear that reductions in the cost, or substantial increases in the availability, of bank credit would appreciably change the prospects for an upturn in private investment. At the moment, a very cautious attitude prevails in the private sector, related more to uncertainties about the government's view of the role for private enterprise in Mexico's development than to the impact of high interest rates.

It is noteworthy that the government obtained from the IMF some leeway for the allowable fiscal deficit in the 1984 economic program, in the event that private-sector spending fails to recover as quickly as desired. A spending reserve equivalent to 1% of GDP may be used in the second half of the year if economic activity does not recover and provided that noninflationary financing is available. There might well be strong pressure to activate this fiscal reserve in order to finance employment-creating public investment projects.

Consistent with a modest recovery of economic activity and the need to ease bottlenecks and shortages that are contributing to inflation, this year's IMF program envisions a liberalization of imports. Merchandise imports, which had been cut by two-thirds from their 1981 peak level, are expected to rise from under $8 billion in 1983 to $13½ billion in 1984 through a relaxation of import duties, quotas, and permits imposed at the height of the payments crisis. This will narrow the trade surplus from $13.7 billion to about $9 billion, since crude oil export volumes and prices are assumed to remain virtually unchanged and an expected 15% rise in non-oil exports will yield only an additional $1 billion in earnings. Accordingly, officials project the current account balance to swing from a $5½ billion surplus to a $1 billion deficit. Financing from official and private sources, including $3.8 billion from commercial banks, is to cover this modest current account deficit, along with repayments of principal (mainly to official agencies) not subject to rescheduling, and also to permit a $2 billion increase in international reserves.

Critical to Mexico's balance of payments performance this year is the evolution of exchange rate policy. The present pace of minidevaluations, equivalent to about 33% over a 12-month period, would maintain external competitiveness at the end-1983 level only if domestic inflation does not exceed 40% in 1984. But in the first quarter, domestic prices rose 16.2%, as measured by the wholesale price index (excluding food), while the peso depreciated by 8.4% against the dollar, and by 7.4% on a trade-weighted basis. Thus, on a real effective basis, the peso appreciated by nearly 6% considerably eroding Mexican competitiveness. Clearly, a continuation of this trend could seriously impede the achievement of external payments objectives, despite the strong U.S. economic expansion that otherwise augurs well for Mexican exports. Continued real appreciation also may deter import substitution in Mexico and further delay reflows of private capital from abroad. While real appreciation of the peso alleviates inflationary pressures by constraining increases in the prices of tradable goods in the near term, experience shows that the anti-inflationary benefits are only temporary and are outweighed by the costs of lost international competitiveness.

Another factor that will have a bearing on this year's current account result is the trend in overseas interest rates. Official projections assume that the effective interest rate on external debt will average about one percentage point higher than 1983's 11%. This assumption will hold if market rates of interest do not rise higher than present levels. Given that much of Mexico's foreign debt is on a floating-rate basis, every one-percentage-point variation from the posited interest rate translates into a $700 million change in interest payments over the course of a year.

An additional uncertainty revolves around the 1984 level of imports. There can be little doubt that imports will recover strongly this year. Data on U.S. exports to Mexico during the first quarter — up 33% over the first quarter of last year — confirm that a healthy upturn is on the way. This is understandable considering how far inventories of imported goods were depleted during 1982-83 and how tightly imports were restricted through quantitative controls. What is difficult to judge is how quickly import demand will react to the liberalization of these controls, the real appreciation of the peso, and the degree of private-sector recovery. In fact, it is more likely that Mexican imports this year may increase to no more than $12 billion, a 56% rise, rather than by 75% to $13½ billion. In this event, the current account may continue to show a surplus (see Table 2).

Challenges beyond 1984

Notwithstanding the progress made so far in Mexico's stabilization program, further improvements of aggregate demand and exchange rate policies are needed to lay a firm foundation for longer-term economic growth. Beyond this, additional policy efforts will be required to bring about a change in the pattern of that growth. Future growth ought to be more labor-intensive and more reliant on domestic savings than that achieved during the oil boom, or indeed in the postwar period. Increased labor absorption is required to provide gainful employment opportunities — not only to those presently unemployed or partially employed (estimated at 12% and 50% of the labor force, respectively), but also to the projected 800,000 new entrants into the job market every year. Oil revenues and foreign savings cannot be relied upon to the extent they were in the recent past.

Oil export revenues will not provide stimulus for the economy as they did during 1978-82, when their annual growth rate surpassed 70%. With proven oil reserves of 48 billion barrels at end-1983 (sixth largest in the world), the country could technically boost its output in the future. However, given the weak world demand for oil and an ample supply outlook, substantial growth of Mexican oil production could undermine an orderly international market. The volume of exports can therefore be expected to expand roughly in line with world demand, or at slightly more than 1% per annum. World oil prices are likely to remain fairly flat in nominal terms through 1985 and may subsequently rise no more than expected world inflation. This implies that crude oil export revenues may grow from $15.2 billion in 1984 to about $21.5 billion in 1990, an average of only 6% per annum.

Projected financing availabilities during the rest of the 1980s imply that Mexico may see an outward flow of domestic savings equivalent on average to 3% of GDP. This contrasts sharply with the experience during the 1978-81 period. The accelerated pace of external borrowing in those years resulted in an inflow of net financial transfers of a similar magnitude. The corresponding shift in the direction of net resource flows is an integral part of the longer-term adjustment process. Given the limited prospective growth in oil export revenues, it is essential in order to lower the external debt burden and to gradually reestablish creditworthiness. A sound way to ease balance of payments constraints is thus to improve the domestic savings effort, increase the capacity of future investment to generate new jobs, and expand non-oil export earnings.

As noted earlier, in years to come the public-sector investment program should emphasize employment-generating rather than capital-intensive activities. The 1984 budget has made a start in this direction by reducing investment allocations for large energy and industrial projects in favor of more labor-absorptive activities such as roads, agriculture, and urban infrastructure. Further progress in improving the composition of the investment program should be possible through better project analysis and investment planning. The technical and financial assistance of organizations such as the World Bank and the Inter-American Development Bank could make a useful contribution to this effort. The Mexican authorities also can enhance the overall employment-generating capacity of the economy by eliminating remaining factor-price distortions, such as interest rate levels and fiscal incentives that lower the relative price of capital and thereby promote capital-intensive investment. Similarly, payroll taxes and other indirect labor costs work against a capital/labor mix that reflects the country's resource endowment. Unless the capability of the economy to generate employment improves significantly, unemployment will worsen and illegal emigration to the United States will persist, exacerbating friction between the two countries.

A more dynamic and competitive private sector would be another vehicle for improving resource allocation and raising productivity. Over time, the direct participation of the state in production activities has become widespread. Public-sector enterprises number nearly 400, span almost 70 industrial branches, and account for over one-third of industrial output or about 12% of GDP. Bureaucratic and political considerations have exerted a strong influence in their decision making and have led to very low productivity and poor operating results in many. Moreover, state-imposed price controls, although significantly reduced from their peak in 1982, continue to play a deciding role in determining profit margins in key sectors such as steel, where private participation is important.

A resurgence of private investment is necessary to achieve economic recovery and sustained growth, particularly given the tight investment budget of the public sector. Private-sector confidence in government policies, however, is critical to this end. Currently, a "wait and see" attitude permeates the private sector, in part reflecting weak domestic demand and unutilized capacity in many manufacturing subsectors. The private sector also appears uncertain of the role it will be allowed to play within the context of the government's economic strategy. At issue is the basic government philosophy that the state is the nation's main economic agent. Recalling the previous government's elimination of the Mex-dollar deposits, imposition of exchange controls, and nationalization of private banks, the concern about continued statism is not conducive to stimulating private-sector initiative. This concern has been reinforced by the regulatory measures recently introduced for the automotive and pharmaceutical industries. Government directives now stipulate specific deadlines for the size and type of automobiles to be produced, and set local-content requirements. Extensive price controls are envisioned in pharmaceuticals, together with preferential treatment for locally owned companies.

Important decisions regarding the role of the private sector still await the long-delayed sectoral development plans. These indicative plans could provide an excellent opportunity to turn back the ubiquitous role of the state and stimulate private investment. A good start was made with the announced plan to dispose of a large portion of company shares held by the nationalized banks. More substantive progress might come from curtailing the number of state enterprises engaged in commercial and production activities and from further reducing the number of products subject to price controls. These measures should be combined with continued liberalization of imports to promote the competitiveness of private firms, which has often lagged because of a protected domestic market. Unless reversed, continued statism would jeopardize the potentially dynamic contribution to economic growth that only a revitalized private sector can provide. If the private sector is reduced to the role of passive adjunct to the state, self-sustained growth coupled with price and balance of payments stability are only too likely to prove elusive.

Enhanced private-sector competitiveness also is essential if non-oil merchandise exports and services are to play a growing role in generating foreign exchange revenues. Considerable potential exists for the expansion of these exports given the size and proximity of the U.S. market, the modest market share of many Mexican products in world markets, and the low wage rates prevailing in Mexico. Non-oil export expansion depends on the maintenance of international cost advantages through a sound exchange rate policy, which, coupled with lower import protection, would foster an outward orientation in locally established firms. A more accommodating attitude toward imports on the part of industrialized countries would provide much-needed positive incentive for Mexican export development by local producers.

A resurgence of foreign investment would be another instrument for stimulating Mexico's growth and productivity. Foreign investment can make significant contributions in such areas as employment creation, technology transfer, efficient import substitution, and export growth. The basis for foreign investment participation in Mexico's economy may well be different in the future than it was in the oil boom

Table 3

Net borrowing requirements and external debt

annual averages, $ billions

	1983-84	*1985-87*	*1988-90*
Trade balance	12.0	7.6	6.0
Current account balance	3.3	—1.9	—4.1
Net borrowing requirements	4.0	3.4	5.6
Net resource transfers	—10.5	—8.7	—7.4
Growth of external debt (% change)	4.5	3.5	5.0
Debt to exports ratio at end of period (%)	303	265	226

period. During that period, the rapidly expanding domestic market provided the primary motivation for investment decisions. Moreover, macroeconomic policies encouraged the use of imported inputs in production processes, discouraged exports, and stimulated external borrowing as opposed to equity capital participation. For the foreseeable future, by contrast, potential foreign investors will be facing more modest growth in the domestic market and more limited access to foreign exchange.

Accordingly, now more than before, the government's foreign investment policy needs to provide stable and clear regulations and procedures. The government is aware of this but has opted not to change the existing foreign investment law out of concern for the political controversy it might generate within the government party. Recent guidelines providing for a more flexible and selective application of existing regulations were disappointing insofar as foreign investors had sought more concrete and permanent assurances in the form of new legislation. Under present arrangements, government administrators will continue to have considerable discretionary powers in deciding the merits of individual proposals on a case-by-case basis. Moreover, the criteria of flexibility and selectivity could be subject to different interpretations over time. Such a system is open to arbitrariness and procedural delays, and may not be conducive to the desired strong recovery in foreign investment.

A more central role for the private sector in the country's development plans also would promote a return flow of capital transferred abroad in recent years. There are two important conditions for drawing at least a portion of this capital back on a permanent basis. One is the consistent application of interest rate and exchange rate policies that reward potential investors with attractive and stable returns on domestic financial instruments relative to lower-risk alternatives abroad. The second is the creation of a local investment climate that provides profitable investment opportunities for equity capital on a long-term basis. At present, interest and exchange rate policies are based on an expected inflation rate which is considerably below actual inflation. Such policies not only deter a return of capital, but could contribute to renewed outflows.

Summary

In the immediate period ahead, Mexico needs to consolidate the commendable progress made up to now in redressing the most glaring problems inherited from the oil boom period. Public-sector finances and the balance of payments are presently on a much more solid footing. Despite improved aggregate demand policies, however, inflation remains above the expected level because of the pressures stemming from essential price increases combined with much-reduced import levels. The latter source of pressure can be expected to abate over the course of the year as imports climb back from the unusually low level of 1983. Concern with inflation should not deter the authorities from continuing to pursue steadfastly the policies initiated late in 1982. In particular, interest rate and exchange rate policies need to be brought more in line with actual as opposed to expected inflation in order to avoid retrogression on the domestic savings and external fronts.

Over the longer term, appropriate macroeconomic policies, combined with other measures aimed at enhancing the competitiveness and employment-generation capacity of the economy, would permit Mexico to regain satisfactory rates of growth and to keep current account deficits within manageable bounds. Principally through sustained trade surpluses, these deficits could be held substantially below those registered during the last two decades relative to exports of goods and services. Smaller current account deficits together with a recovery of foreign investment would permit a narrowing of the country's net borrowing requirements in line with the expected limited availability of external financing over the coming years. This should be attainable under a reasonably stable world economic environment. An annual average growth rate of the foreign debt of about 4%-5% per annum (see Table 3) is feasible and consistent with a per capita economic growth rate of about 3% per annum. This rate of debt accumulation is well below that expected for exports and somewhat less than the likely pace of global inflation. Thus, Mexico ought to be able to trim gradually the level of its debt in real terms and regain creditworthiness. Over the course of the decade, the debt to exports ratio could be brought down steadily from a level of over 300% in 1983 to about 225% in 1990. In the next three years, continued good performance would facilitate rescheduling of maturing bank debt and could allow Mexico's annual new money requirements from foreign banks to remain relatively small — $1-$2 billion — thus establishing the basis for a resumption of normal access to international credit markets.

Statistical appendix

for key to data in tables see April 1984 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average = 100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1983																
May	112.2	100.6	107.9	88.2	86.8	108.5	90.8	92.9	104.0	90.8	104.8	79.5	110.6	97.5	99.3	81.7
June	114.3	100.8	106.6	89.4	86.4	107.6	90.[illegible]	93.6	103.4	90.2	104.6	78.3	110.6	96.2	99.5	82.2
July	115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August	117.0	101.2	106.2	91.5	85.6	106.5	89.6	94.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November	116.5	100.9	110.7	94.8	85.1	107.1	88.3	92.8	103.2	88.4	104.4	75.9	112.8	94.6	100.9	82.7
December	118.0	100.4	112.1	94.2	84.7	106.8	88.0	91.8	102.8	88.2	104.1	75.8	113.8	94.0	99.5	83.1
1984																
January	119.1	100.5	113.3	95.5	84.1	106.5	87.6	91.5	102.6	87.7	103.7	76.3	113.8	93.6	99.2	83.4
February	117.3	100.2	111.9	97.3	84.7	108.0	87.0	91.4	103.5	88.3	104.3	77.1	112.2	94.0	99.0	82.9
March	115.4	98.0	114.7	97.2	85.3	109.0	87.2	89.8	104.2	89.0	105.0	77.2	111.7	94.6	98.7	83.5
April	116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
March 30	115.5	97.4	115.3	96.1	85.5	109.2	87.1	89.1	104.3	89.1	105.2	77.5	111.5	94.5	98.6	83.6
April 6	116.0	97.5	115.3	95.9	85.4	109.0	87.4	88.7	104.4	89.0	105.0	77.7	111.5	94.2	98.9	83.8
13	116.0	97.4	115.9	94.2	85.3	108.9	87.7	88.9	104.1	89.0	105.0	77.8	111.3	94.2	98.8	83.5
20	116.7	97.4	115.9	94.9	85.1	108.5	87.4	[illegible]	104.3	89.1	104.8	78.3	111.2	94.1	99.2	83.7
27	117.4	97.6	116.0	95.2	85.0	108.2	87.1	88.9	104.2	88.7	104.7	78.4	111.2	93.8	99.1	83.7
May 4	118.3	97.0	115.9	96.3	84.8	107.9	86.8	89.4	103.8	88.7	104.3	78.3	110.9	93.6	99.2	83.7
11	119.7	96.8	115.5	95.6	84.4	107.4	86.8	89.5	103.5	88.7	104.3	78.3	110.8	93.4	99.2	83.6

Real effective exchange rates

Index numbers, 1980-82 average = 100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.5	99.6	103.1	93.0	102.2	103.5	103.5	99.3	100.2	107.5	100.0	102.0	98.7	103.7	96.7	101.3
1981	100.7	100.0	104.7	102.8	100.2	97.4	98.7	102.1	99.1	100.3	97.7	99.0	98.8	99.4	101.0	102.1
1982	109.8	100.4	92.3	104.2	97.7	99.1	97.8	98.6	100.7	92.2	102.4	99.0	102.5	97.0	102.4	96.6
1983	112.6	103.0	96.5	99.9	95.9	99.3	100.0	93.0	101.6	91.7	101.8	89.5	105.2	98.6	101.1	91.4
1983																
May	110.5	103.3	97.0	95.7	94.8	100.3	100.3	94.6	101.7	92.9	101.5	90.5	104.3	100.6	100.9	90.2
June	112.7	103.4	95.4	96.8	94.4	99.4	100.2	95.2	101.1	92.5	101.1	89.6	104.2	99.0	101.5	91.1
July	113.4	103.7	95.3	97.4	95.2	98.5	100.3	94.9	101.3	91.9	101.4	87.8	104.9	96.9	101.0	92.7
August	115.4	103.8	93.7	99.6	94.5	98.1	99.0	95.4	100.6	91.6	101.0	88.0	105.9	96.2	101.0	93.1
September	114.1	104.4	94.8	100.9	95.0	98.2	99.5	95.4	100.5	90.9	100.9	88.3	105.6	97.7	103.1	92.4
October	113.2	103.2	97.3	102.2	95.6	98.9	99.6	93.5	101.4	90.4	101.0	87.8	105.8	97.6	102.6	92.4
November	114.4	103.2	97.3	104.0	95.6	97.8	99.6	94.4	100.8	89.7	100.3	88.4	105.8	96.8	102.3	93.2
December	115.5	102.9	98.5	103.6	95.7	97.4	99.8	93.2	100.4	89.1	100.0	88.9	106.4	95.6	101.4	94.0
1984																
January	116.1	103.5	99.2	105.1	95.4	96.9	100.1	93.1	102.2	88.1	99.1	89.8	106.0	95.4	101.2	95.1
February	114.2	103.3	97.7	107.3	96.5	98.1	100.0	93.1	103.0	88.3	99.3	91.0	104.3	97.0	101.5	94.7
March	112.1	101.1	99.9	107.3	97.7	98.8	100.7	91.8	103.2	88.6	99.7	91.6	103.6	97.1	100.7	95.8
April	113.1	100.9	100.6	105.1	98.0	98.2	101.5	91.0	103.7	88.1	99.2	93.0	103.0	96.6	101.1	96.4

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Eurodollar											
overnight	19.25	12.87	9.25	9.25	9.25	9.00	9.50	9.25	9.38	10 13	10.25
one month	19.12	13.31	9.12	9.38	9.44	9.69	9.69	9.50	9.88	10.44	10.63
three months	17.55	13.75	9.19	9.50	9.62	9.75	9.81	9.63	10.13	10.63	10.94
six months	16 37	14.81	9.50	9.69	9.69	9.94	10.06	9.88	10.38	10.94	11.25
twelve months	14.87	14.75	9.62	10.00	9.94	10.31	10.37	10.19	10.81	11.44	11.75
Euro-Canadian dollar											
one month	17.50	15.37	10.00	9.06	8.94	9.25	9.12	9.63	9.63	10.00	10.00
three months	16.88	15.37	10.00	9.13	9.19	9.37	9.50	9.63	9 81	10.38	10.50
six months	15.37	16.37	10.13	9.38	9.37	9.56	9.75	9.88	10.00	10.69	10.94
twelve months	14.00	16.37	10.25	9.75	9.69	9.75	10.00	10.06	10.38	11.19	11.44
Euro-French franc											
one month	11.12	15.75	23.00	12.75	12.25	12.25	12.12	12.13	18.00	12.94	11.94
three months	11.75	17.00	24.00	14.31	12.87	13.19	12.19	13.00	17.25	14.38	13.13
six months	12.25	18.00	22.00	15.81	14.00	14.12	12.31	13.75	16.75	15.13	13.88
twelve months	12.87	18.25	19.75	16.19	14.87	14.63	12.62	14.38	16.13	15.88	14.88
Euromark											
one month	8.87	10.44	5.87	5.56	5.56	6.19	5.25	5.69	5.69	5.50	5.44
three months	8.87	10.50	5.87	5.75	5.81	6.19	5.87	5.88	5.81	5.56	5.63
six months	8.87	10.56	5.94	5.88	5.81	6.19	6.12	6.19	6.94	5.75	5.75
twelve months	8.93	10.25	6.00	6.19	6.12	6.44	6.37	6.38	6.19	6.13	6.19
Euro-Dutch guilder											
one month	8.87	10.75	5.12	5.94	5.75	6.00	5.81	5.88	5.94	6.06	5.75
three months	9.31	10.75	5.19	6.19	6.06	6.19	6.00	5.94	6.00	6.06	5.94
six months	9.37	10.75	5.38	6.25	6.19	6.31	6.25	6.13	6.06	6.19	6.06
twelve months	9.62	10.75	5.63	6.56	6.50	6.62	6.37	6.44	6.44	6.50	6.44
Euro-Swiss franc											
one month	6.00	8.87	2.31	3.69	3.50	4.06	3.37	3.00	3.44	3.50	3.31
three months	6.00	9.25	3.25	4.13	4.12	4.06	3.75	3.44	3.63	3.63	3.63
six months	5.75	9.25	3.44	4.31	4.19	4.19	3.94	3.81	3.88	3.81	3.94
twelve months	5.50	8.50	3.44	4.38	4.31	4.37	3.94	3.94	4.13	4.13	4.19
Eurosterling											
one month	14.75	15.37	10.56	9.63	9.19	9.06	9.12	9.19	9.13	8.75	8.56
three months	14.75	15.69	10.44	9.56	9.25	9.25	9.31	9.38	9.19	8.88	8.81
six months	14.25	15.69	10.31	9.56	9.37	9.44	9.50	9.56	9.31	9.06	9.06
twelve months	14.00	15.37	10.31	9.81	9.69	9.69	9.81	9.88	9.50	9.31	9.38
Euroyen											
one month	9.12	6.12	6.75	6.69	6.12	7.25	6.25	6.13	6.88	6.19	6.00
three months	9.25	6.12	6.75	6.69	6.31	6.75	6 31	6.31	6.56	6.19	6.19
six months	9.62	6.87	7 10	6.69	6.31	6.69	6.38	6.31	6.50	6.25	6.25
twelve months	9.37	6.87	6.81	6.69	6.44	6.69	6.44	6.44	6.63	6.38	6.31

International bond issues – by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Apr	
				Feb	Mar	Apr	1984	1983
Eurobonds	**31 616**	**51 645**	**48 479**	**8 417**	**5 969**	**7 615**	**28 680**	**16 833**
U.S. dollar	26 830	43 959	38 406	6 622	4 120	6 371	22 884	13 421
Canadian dollar	634	1 201	1 039	16	111	106	345	367
German mark	1 277	2 588	3 817	567	406	466	1 741	1 774
British pound	501	748	1 947	577	623	270	1 751	277
Japanese yen	368	374	212	43	—	133	176	148
European composite unit	309	1 980	2 019	476	491	123	1 215	494
Other	1 697	795	1 039	116	218	146	568	352
Foreign bonds	**21 369**	**26 397**	**27 677**	**2 829**	**2 841**	**2 583**	**10 295**	**11 431**
U.S. dollar	7 552	5 946	4 400	100	1 078	190	1 568	1 823
German mark	1 310	2 952	2 671	308	154	132	755	1 144
Dutch guilder	481	956	1 053	157	—	67	287	474
British pound	746	1 214	811	176	51	184	502	145
Swiss franc	8 285	11 432	14 299	1 682	1 287	1 649	5 854	6 203
Japanese yen	2 457	3 418	3 772	235	266	356	1 135	1 454
Other	538	479	671	171	5	5	194	188
Total	**52 985**	**78 042**	**76 156**	**11 246**	**8 810**	**10 198**	**38 975**	**28 264**

International bond issues – by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Apr	
				Feb	Mar	Apr	1984	1983
Industrial countries	**40 861**	**63 062**	**60 146**	**9 668**	**8 077**	**8 996**	**34 078**	**23 676**
Australia	991	2 250	2 394	149	252	171	753	455
Austria	1 557	1 668	1 265	233	261	235	945	581
Belgium	527	211	1 153	—	161	146	307	192
Canada	10 648	11 979	7 411	436	568	1 091	3 043	2 983
Denmark	695	1 269	1 719	273	384	131	1 388	461
Finland	672	815	866	90	185	80	500	378
France	3 156	8 456	6 461	1 404	375	5	2 306	3 089
Germany	279	1 101	3 095	473	140	18	912	1 454
Ireland	517	625	959	64	73	—	172	251
Italy	1 108	2 214	1 565	82	250	20	602	230
Japan	6 928	8 397	13 966	2 557	1 357	2 322	7 990	5 926
Netherlands	630	894	946	291	98	150	645	273
New Zealand	1 107	1 375	560	131	—	247	378	448
Norway	530	832	699	25	77	100	302	268
Portugal	30	206	76	21	100	—	121	46
South Africa	92	374	548	96	168	69	333	182
Spain	444	747	1 470	44	251	135	702	414
Sweden	2 050	2 479	3 812	545	1 261	1 644	3 626	2 080
United Kingdom	1 408	1 201	1 398	863	333	390	1 886	302
United States	6 770	14 538	7 486	1 596	1 377	1 956	6 344	2 626
*Other**	722	1 431	2 297	295	406	86	823	1 037
Developing countries	**4 886**	**5 003**	**2 525**	**152**	**110**	**95**	**823**	**390**
Latin American countries	**3 658**	**2 480**	**71**	—	—	—	—	**21**
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Mexico	3 012	1 919	—	—	—	—	—	—
Panama	25	—	21	—	—	—	—	21
Venezuela	291	385	—	—	—	—	—	—
*Other***	—	50	50	—	—	—	—	—
Asian countries	**1 068**	**2 075**	**2 242**	**152**	**110**	**95**	**783**	**369**
Hong Kong	70	40	50	—	—	—	—	—
India	271	225	60	—	50	—	50	20
Indonesia	97	412	328	—	—	—	—	37
Korea	323	172	556	40	60	45	200	151
Malaysia	—	807	883	—	—	—	350	104
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	—	—	—	—
Thailand	93	63	255	112	—	50	183	17
Other	85	181	40	—	—	—	—	40
Middle Eastern and African countries	**160**	**448**	**212**	—	—	—	**40**	—
Egypt	—	75	—	—	—	—	40	—
Israel	117	200	135	—	—	—	—	—
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	—	—	—	—	—
Centrally planned countries	**75**	**65**	**75**	—	—	—	—	25
China	—	65	50	—	—	—	—	—
Hungary	20	—	—	—	—	—	—	—
*Other****	55	—	25	—	—	—	—	25
International organizations****	**7 163**	**9 912**	**13 410**	**1 426**	**623**	**1 107**	**4 074**	**4 173**
Total	**52 985**	**78 042**	**76 156**	**11 246**	**8 810**	**10 198**	**38 975**	**28 264**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States companies											
Eurodollar	n.a.	n.a.	11.16	11.13	11.29	11.41	11.59	11.43	11.77	12.28	12.53
Euro-German mark	n.a.	n.a.	7.24	7.35	7.23	7.23	7.34	7.34	7.26	7.24	7.29
Swiss franc	n.a.	n.a.	5.61	5.78	5.75	5.73	5.73	5.58	5.61	5.63	5.59
European governments											
Eurodollar	n.a.	n.a.	12.53	12.40	12.44	12.52	12.65	12.33	12.58	12.96	13.27
Euro-German mark	n.a.	n.a.	8.10	8.18	8.05	8.07	8.12	8.08	7.63	7.82	7.88
Swiss franc	n.a.	n.a.	5.36	5.61	5.52	5.52	5.59	5.43	5.33	5.34	5.35

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	1982	1983	1984 Feb	1984 Mar	1984 Apr	Jan-Apr 1984	Jan-Apr 1983
Industrial countries	**86 022**	**42 571**	**38 729**	**2 715**	**32 792**	**2 929**	**48 124**	**12 834**
Australia	1 680	4 721	2 911	45	211	25	372	1 077
Belgium	360	1 172	883	—	—	—	—	50
Canada	4 112	3 838	967	—	—	137	772	—
Denmark	1 661	789	1 586	10	—	—	18	1 300
Finland	463	631	283	—	—	—	—	25
France	3 912	5 703	1 700	61	—	538	732	582
Greece	1 039	770	1 085	—	400	—	400	542
Ireland	1 361	401	764	—	—	—	—	541
Italy	6 030	3 757	2 980	257	283	19	924	992
Norway	713	1 769	1 236	—	24	—	24	286
Portugal	1 590	1 388	913	186	110	—	296	300
South Africa	287	1 479	752	100	—	50	150	575
Spain	3 242	1 849	3 041	249	235	144	782	1 003
Sweden	1 867	649	3 188	—	—	300	300	2 170
United Kingdom	747	1 635	1 328	750	107	250	1 117	310
United States	54 784	6 516	12 948	1 050	30 970	295	40 457	2 213
Yugoslavia	684	719	615	—	—	—	—	615
*Other**	1 490	4 785	1 549	7	452	1 171	1 780	253
Developing countries	**45 264**	**41 519**	**32 933**	**1 416**	**1 123**	**5 307**	**15 706**	**17 149**
Latin American countries	**30 152**	**26 719**	**15 406**	**170**	—	**3 845**	**10 545**	**9 961**
Argentina	2 534	1 565	1 750	—	—	—	—	—
Brazil	5 751	5 716	4 475	—	—	—	6 500	4 475
Chile	2 204	1 194	1 319	—	—	—	—	—
Colombia	1 030	741	549	170	—	—	170	100
Ecuador	934	815	431	—	—	—	—	—
Mexico	7 530	7 953	5 138	—	—	3 800	3 800	5 100
Peru	1 407	1 069	500	—	—	10	10	16
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	1 203	867	1 007	—	—	35	65	33
Asian countries	**10 288**	**8 403**	**8 824**	**730**	**889**	**843**	**3 624**	**4 213**
India	377	284	809	—	55	20	125	477
Indonesia	725	1 250	1 467	15	17	—	782	1 146
Korea	2 824	2 923	3 250	298	717	323	1 443	870
Malaysia	1 725	1 909	950	150	—	500	650	610
Pakistan	350	455	365	—	—	—	—	115
Philippines	1 257	635	815	—	—	—	—	585
Thailand	692	268	349	247	—	—	247	18
Other	2 338	679	819	20	100	—	377	392
Middle Eastern and African countries	**4 824**	**6 397**	**8 703**	**516**	**234**	**619**	**1 537**	**2 975**
Algeria	—	26	1 934	—	—	—	—	700
Egypt	63	353	335	—	—	—	—	71
Morocco	774	326	226	75	—	20	115	25
Nigeria	1 802	2 042	1 775	—	—	—	—	33
Turkey	100	2 042	1 106	350	—	100	450	166
United Arab Emirates	363	93	876	—	—	39	39	690
Other	1 722	3 280	2 451	91	234	460	933	1 290
Centrally planned countries	**1 791**	**765**	**1 212**	**604**	**410**	**250**	**1 514**	**233**
East Germany	470	8	392	—	50	—	50	—
Hungary	550	340	683	412	—	250	662	233
Soviet Union	25	374	68	115	—	—	365	—
*Other****	746	43	69	77	360	—	437	—
International organizations****	**302**	**160**	**1 321**	—	—	—	—	**21**
Total	**133 379**	**85 015**	**74 195**	**4 735**	**34 325**	**8 486**	**65 344**	**30 237**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977	1978	1979	1980	1981	1982 Dec	1983 Mar	1983 Jun	1983 Sep	1983 Dec
Gross market size	740	949	1 233	1 524	1 861	2 057	2 074	2 045	2 115	2 153
Nonbanks	135	174	245	327	428	474	472	489	515	527
Official monetary institutions	100	115	145	150	132	90	90	84	90	89
Other banks	505	660	843	1 047	1 301	1 493	1 512	1 472	1 510	1 537
Eurodollars as % of gross	76	74	72	75	78	79	80	80	80	80

Central bank discount rates

at or near end of month

	1980	1981	1982	1983			1984	Current	
	Dec	Dec	Dec	Jun	Sep	Dec	Mar	May 11 1984	effective since
United States	13.00	12.00	8.50	8.50	8.50	8.50	8.50	9.00	Apr 9, 84
Canada	17.36	14.66	10.05	9.42	9.49	9.96	10.78	10.82	Apr 19, 84
Austria	6.75	6.75	4.75	3.75	3.75	3.75	4.25	4.25	Mar 14, 84
Belgium	12.00	15.00	11.50	9.00	9.00	10.00	11.00	11.00	Feb 16, 84
Denmark	11.00	11.00	10.00	7.50	7.50	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	9.25	8.50	8.50	9.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	7.50	5.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 73
Ireland	12.75	17.15	14.35	13.80	12.20	11.50	11.50	11.50	Nov 11, 83
Italy	16.50	19.00	18.00	17.00	17.00	17.00	16.00	16.00	Feb 15, 84
Netherlands	8.00	9.00	5.00	4.50	5.00	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	9.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	18.00	19.00	23.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	12.00	11.00	10.00	8.50	8.50	8.50	8.50	8.50	Apr 8, 83
Switzerland	3.00	6.00	4.50	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.00	14.37	10.00	9.56	9.50	9.00	8.50	8.50	Mar 15, 84
Japan	7.25	5.50	5.50	5.50	5.50	5.00	5.00	5.00	Oct 22, 83
New Zealand	14.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	7.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 12, 81
Argentina	87.01	98.50	128.54	161.87	183.75	183.75	134.13	167.37	Apr 1, 84
Korea	15.50	10.50	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.50	6.69	6.30	6.51	6.91	8.05	n.a.	8.33	Feb, 84
Singapore	10.50	9.50	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	13.50	14.50	12.50	11.50	11.50	13.00	13.00	13.00	Dec 9, 83
Venezuela	13.00	14.00	13.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	18.90	12.37	8.95	9.45	9.48	9.34	9.47	9.56	9.59	9.90	10.29
Canada	15.61	14.53	10.63	9.25	9.35	9.43	8.78	9.60	9.63	9.50	9.72
Austria	11.50	7.50	6.00	5.00	5.62	5.62	5.75	5.87	5.87	6.00	6.38
Belgium	9.68	12.78	9.43	6.38	6.89	8.58	8.65	8.03	7.57	11.20	11.37
Finland	12.50	11.30	11.50	16.67	16.95	16.70	16.70	17.50	17.50	17.50	16.77
France	10.87	15.46	12.88	12.56	12.35	12.37	12.27	12.39	12.30	12.48	n.a.
Germany	9.13	10.65	6.07	5.43	5.53	5.59	5.60	5.61	5.55	5.52	5.53
Ireland	13.31	16.88	14.54	12.62	11.00	12.25	12.19	12.12	11.25	10.75	n.a.
Italy	17.50	20.63	19.00	17.69	17.75	17.79	17.88	17.91	17.67	17.25	17.25
Netherlands	8.37	10.67	5.31	5.68	5.82	5.70	5.84	5.77	6.12	6.13	n.a.
Norway	11.00	18.60	11.00	12.30	13.50	13.00	13.00	12.80	11.45	13.00	13.00
Spain	16.74	18.73	20.30	19.85	20.27	18.56	16.41	10.16	18.14	14.75	n.a.
Sweden	11.41	13.82	8.63	11.30	12.00	11.97	11.48	11.36	10.90	10.15	n.a.
Switzerland	5.75	3.38	1.25	2.00	1.75	1.62	1.88	1.00	1.62	2.25	n.a.
United Kingdom	13.00	9.13	6.70	7.30	7.81	7.06	7.77	7.31	7.12	7.08	6.25
Australia	9.51	12.84	11.04	9.80	9.03	9.31	4.56	7.09	9.05	11.21	n.a.
Japan	9.49	6.70	6.92	6.53	6.43	5.99	6.47	6.05	6.04	6.46	n.a.
South Africa	6.03	12.75	14.15	14.94	14.75	15.05	16.06	17.13	17.25	17.25	17.25
Argentina	70.84	84.93	155.32	175.30	178.30	178.30	178.30	138.61	128.53	128.52	161.88
Brazil	62.71	103.74	150.42	193.91	192.62	193.91	184.69	224.27	295.48	268.44	n.a.
Hong Kong	14.05	10.75	9.13	13.25	18.00	10.00	13.90	7.25	3.31	7.32	n.a.
Korea	14.82	14.40	13.84	12.80	12.80	12.90	11.40	11.30	10.50	10.00	n.a.
Philippines	15.70	14.70	16.12	16.54	24.23	18.96	31.18	25.52	21.76	n.a.	n.a.
Singapore	10.23	3.96	11.45	6.51	7.02	7.23	7.05	6.92	6.83	7.64	8.13

Treasury bill rates

bond equivalent yields, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	14.87	11.90	8.15	9.05	8.92	9.05	9.28	9.20	9.48	10.09	10.02
Canada	17.01	14.41	9.80	9.24	9.24	9.38	9.71	9.73	9.79	10.53	10.59
Belgium	12.75	16.00	12.25	9.25	9.50	10.85	10.85	10.85	12.25	12.25	11.75
Ireland	12.84	17.35	14.70	12.12	11.96	11.66	11.63	11.80	12.16	12.59	n.a.
Italy	16.87	21.36	19.11	17.18	17.08	17.05	16.95	15.74	15.89	n.a.	n.a.
Netherlands	8.00	9.75	5.62	5.87	5.62	5.62	5.63	5.75	6.12	5.88	n.a.
Spain	n.a.	n.a.	15.28	14.60	14.52	14.53	14.46	13.61	13.66	13.20	n.a.
Sweden	n.a.	n.a.	12.90	12.20	12.10	12.10	11.75	11.10	11.15	10.80	n.a.
United Kingdom	13.45	15.31	9.90	9.21	8.89	9.08	9.08	9.08	9.08	8.59	8.59
Australia	12.17	13.27	9.39	10.34	9.38	9.32	8.54	9.43	10.35	13.11	n.a.
Japan	5.93	5.42	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	n.a.
New Zealand	11.25	11.25	11.25	7.80	7.80	7.80	7.80	7.80	7.80	7.80	n.a.
South Africa	6.31	14.55	14.62	14.91	15.66	17.47	18.43	18.55	18.57	18.57	18.64
Brazil	65.87	92.62	115.40	163.92	179.15	179.15	179.15	179.15	179.15	179.15	n.a.
Mexico	27.73	33.33	57.44	56.17	54.50	53.85	53.78	53.02	n.a.	n.a.	n.a.
Philippines	12.74	13.40	14.53	14.71	15.04	15.56	15.98	16.27	17.01	n.a.	n.a.
Singapore	6.77	3.03	2.74	2.65	2.63	2.62	2.59	2.67	2.65	2.66	2.87

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	17.62	12.78	8.81	9.36	9.26	9.31	9.75	9.36	9.68	10.30	10.50
Canada	17.50	15.25	9.95	9.40	9.40	9.60	9.87	9.85	9.95	10.70	10.75
Belgium	13.10	16.00	12.35	9.25	9.50	10.75	11.00	11.00	12.50	12.35	11.90
France	11.56	15.25	12.75	12.50	12.19	12.31	12.19	12.25	12.54	12.56	12.31
Germany	10.20	10.50	6.20	5.80	6.15	6.25	6.30	6.10	5.85	5.80	5.70
Ireland	13.62	18.50	15.75	12.69	12.53	12.37	12.19	12.25	12.56	13.00	n.a.
Italy	17.37	21.00	19.00	17.50	17.63	17.88	17.88	17.88	17.00	17.25	17.25
Netherlands	9.37	11.00	5.25	6.25	6.12	6.31	6.00	5.94	6.00	6.06	5.88
Portugal	11.00	13.80	15.04	22.30	23.00	24.17	24.11	24.06	23.79	23.99	n.a.
Spain	17.40	15.52	16.55	22.06	22.19	20.29	18.48	17.30	18.30	16.42	n.a.
Switzerland	7.50	10.12	3.87	4.25	4.25	4.25	3.87	3.62	3.75	3.94	3.63
United Kingdom	14.75	15.69	10.50	9.56	9.31	9.25	9.31	9.37	9.21	8.88	8.81
Australia	13.00	16.00	10.65	11.15	11.00	10.60	9.50	11.00	13.00	13.55	n.a.
Japan	9.80	6.30	6.80	6.62	6.30	6.42	6.42	6.30	6.40	6.40	6.20
New Zealand	14.25	16.05	16.75	10.00	10.75	12.00	12.10	13.85	15.00	14.75	n.a.
South Africa	7.12	15.47	15.26	16.45	16.94	18.19	19.12	19.07	19.01	18.30	19.07
Chile	26.79	34.54	71.44	25.34	25.34	25.34	22.42	19.56	14.03	11.35	18.16
Hong Kong	17.69	14.18	10.13	12.75	16.88	11.50	12.84	11.37	7.87	7.90	n.a.
Indonesia	12.54	14.48	18.50	16.50	15.00	15.00	19.50	19.00	20.50	19.50	n.a.
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	n.a.
Malaysia	9.41	9.50	8.50	8.10	8.20	8.65	9.80	9.47	8.51	8.95	9.10
Philippines	15.01	17.61	15.89	16.49	18.26	17.34	15.60	16.08	17.40	n.a.	n.a.
Singapore	14.12	7.81	8.69	7.37	7.50	7.62	8.44	7.75	7.75	8.50	8.63
Taiwan	14.49	10.94	9.94	8.37	7.82	7.26	7.65	9.22	9.42	7.81	7.31
Thailand	16.55	14.29	12.25	14.00	14.25	14.50	16.00	16.50	17.00	15.50	n.a.

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	16.25	12.62	8.25	9.20	9.30	9.30	9.70	9.40	9.77	10.35	10.50
Canada	17.00	15.20	9.85	9.35	9.35	9.50	9.82	9.80	9.90	10.65	10.70
Austria	11.25	9.63	6.25	6.06	6.31	6.37	6.50	6.50	6.25	6.44	6.56
Belgium	12.63	15.50	12.25	9.50	9.38	11.25	11.25	10.87	12.37	11.75	11.50
Denmark	10.00	10.00	9.00	6.50	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	11.25	9.16	8.24	7.80	7.70	7.70	7.66	7.72	7.76	7.76	7.76
Germany	8.00	9.50	6.00	5.63	5.60	5.80	5.90	5.65	5.40	5.35	5.35
Ireland	13.62	18.38	15.25	12.25	12.50	12.25	11.75	11.87	12.37	12.63	n.a.
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	9.50	11.00	5.37	6.12	6.06	6.19	6.13	5.94	6.00	6.06	n.a.
Norway	11.00	12.75	13.50	12.50	12.50	12.50	12.75	13.00	12.50	12.75	12.75
Portugal	12.00	14.00	15.00	21.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50
Spain	4.50	11.78	12.53	12.24	12.08	12.50	12.62	12.49	12.52	n.a.	n.a.
Sweden	13.20	12.65	12.15	12.05	12.20	12.30	11.70	11.00	11.10	10.65	n.a.
Switzerland	7.50	8.75	3.00	3.75	3.50	3.50	3.50	3.25	3.25	3.00	n.a.
United Kingdom	14.87	15.69	10.31	9.50	9.25	9.22	9.31	9.37	9.25	8.88	8.91
Australia	12.71	15.65	10.20	10.56	10.96	10.35	10.40	11.25	12.20	13.13	n.a.
Japan	9.00	6.50	7.00	6.88	6.45	6.60	6.50	6.52	6.63	6.50	n.a.
New Zealand	13.50	15.50	16.50	9.00	9.50	10.75	11.50	13.75	10.00	10.00	n.a.
South Africa	7.87	14.75	15.25	17.00	17.00	18.43	20.13	19.45	18.88	19.38	18.88
Argentina	72.00	86.76	103.42	176.41	176.41	176.41	176.41	139.91	121.66	121.66	158.17
Brazil	54.00	110.05	21.00	25.00	26.00	24.00	23.00	26.00	25.00	23.00	n.a.
Chile	39.45	36.87	57.72	25.19	25.19	25.19	22.28	19.74	12.95	11.09	18.16
Hong Kong	13.00	12.50	7.50	12.00	10.00	9.00	9.00	7.00	5.50	5.50	n.a.
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	6.00	6.00	6.00	n.a.
Malaysia	8.60	10.00	8.40	7.15	7.15	7.60	7.75	7.75	7.75	7.83	7.83
Mexico	26.15	31.82	52.54	56.38	55.20	54.84	54.70	53.86	n.a.	n.a.	n.a.
Philippines	14.00	13.35	14.10	13.47	13.62	14.93	14.96	14.33	15.57	n.a.	n.a.
Singapore	13.19	7.50	8.25	6.81	7.07	7.19	7.44	7.13	7.19	7.69	8.01
Taiwan	10.25	10.75	7.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Thailand	9.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	16.00	14.75	15.50	12.50	12.00	12.00	12.00	11.50	11.50	11.00	11.50

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	11.46	14.33	10.61	11.65	11.85	11.89	12.00	11.72	12.13	12.49	12.79
Canada	12.69	15.27	11.69	11.76	11.73	11.80	12.02	11.92	12.40	13.06	13.31
Austria	9.62	10.37	8.81	8.32	8.16	8.06	8.02	7.96	7.88	7.88	7.94
Belgium	13.04	13.99	12.66	11.39	11.32	11.75	11.89	11.97	12.35	12.20	12.08
Denmark	19.98	20.91	20.14	14.19	13.95	14.22	12.96	13.39	14.02	14.78	n.a.
Finland	10.42	10.98	10.64	10.97	11.19	11.16	11.16	11.17	10.62	11.19	10.80
France	14.31	16.44	15.40	14.03	14.15	14.12	13.96	13.76	13.78	14.05	n.a.
Germany	9.19	9.71	7.90	8.43	8.30	8.34	8.38	8.33	8.13	8.18	8.18
Ireland	15.63	18.28	14.54	13.72	13.82	13.72	14.25	13.94	14.16	14.08	n.a.
Italy	16.23	21.39	19.70	17.82	17.65	17.78	17.69	17.09	16.33	n.a.	n.a.
Netherlands	10.48	11.28	8.16	8.80	8.53	8.57	8.58	8.57	8.56	8.40	n.a.
Norway	10.44	12.37	13.32	12.50	12.50	12.50	12.50	12.50	12.25	12.25	12.25
Portugal	17.19	17.39	16.63	21.97	22.05	22.80	22.11	21.19	21.57	n.a.	n.a.
Spain	16.15	16.20	15.92	18.76	19.47	19.50	18.71	18.33	n.a.	n.a.	n.a.
Sweden	12.61	12.80	13.01	12.20	12.24	13.05	12.30	11.70	11.50	11.50	n.a.
Switzerland	4.63	5.40	4.22	4.71	4.61	4.62	4.52	4.31	4.38	4.55	n.a.
United Kingdom	13.05	15.02	10.62	10.15	10.13	9.93	9.94	9.97	10.04	9.89	10.16
Australia	13.00	15.00	13.00	14.40	13.70	13.40	13.65	13.70	14.05	14.00	n.a.
Japan	9.04	8.32	7.76	7.58	7.51	7.39	7.19	7.20	7.06	6.74	6.68
New Zealand	12.99	12.55	12.84	10.13	10.58	10.61	10.50	10.84	11.33	n.a.	n.a.
South Africa	11.81	13.33	11.31	13.14	13.29	13.60	13.70	14.18	13.52	14.20	14.63
Philippines	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
Venezuela	7.39	12.50	15.00	14.00	14.00	14.00	13.50	13.00	13.00	13.00	13.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	21.50	15.75	11.50	11.00	11.00	11.00	11.00	11.00	11.00	11.50	12.00
Canada	18.25	16.50	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.50	11.50
Austria	12.50	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	15.75	18.00	15.50	12.50	12.50	13.25	13.75	13.75	14.75	14.75	14.75
Denmark	13.75	15.00	14.00	10.50	10.50	10.00	10.00	10.00	10.00	10.00	10.00
Finland	9.83	9.84	8.95	10.16	10.14	10.15	10.18	10.30	10.36	10.38	n.a.
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	14.50	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
Italy	20.50	22.50	20.75	18.75	18.75	18.75	18.75	18.50	18.50	17.50	17.50
Netherlands	10.75	12.00	6.25	7.00	6.75	6.50	7.00	6.75	6.75	6.75	n.a.
Norway	12.50	13.75	14.50	13.50	13.25	13.75	13.50	13.63	13.75	13.30	13.30
Portugal	18.75	20.50	23.50	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Spain	18.50	17.04	19.00	24.09	23.70	22.87	20.85	20.01	20.55	19.44	n.a.
Sweden	14.00	15.00	15.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
Switzerland	5.75	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.00	14.50	10.00	9.50	9.00	9.00	9.00	9.00	9.00	8.50	8.50
Australia	13.50	15.75	15.00	14.00	13.25	13.25	12.75	11.50	13.00	14.00	n.a.
Japan	8.16	6.95	6.28	6.23	6.23	6.08	5.89	5.81	5.70	5.70	5.70
New Zealand	13.00	13.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
South Africa	9.50	17.00	18.00	18.00	18.00	19.00	20.00	20.00	20.00	20.75	20.75
Argentina	77.00	92.60	109.50	188.58	188.58	188.58	188.58	152.08	133.83	133.83	170.33
Brazil	120.10	152.40	23.81	24.00	24.00	24.00	24.00	24.00	24.00	24.00	n.a.
Chile	49.55	61.43	85.19	39.83	40.60	40.40	35.11	31.43	22.75	21.26	34.35
Hong Kong	17.00	16.00	10.50	16.00	15.00	13.50	13.50	11.50	10.00	10.00	n.a.
Indonesia	21.00	19.25	22.00	19.50	19.50	19.50	19.75	20.00	21.25	21.50	21.50
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	8.50	12.00	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Mexico	24.25	31.81	46.12	57.78	57.14	56.82	56.44	55.95	55.16	53.11	51.10
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	13.60	11.83	9.33	8.95	8.93	8.93	8.98	9.05	9.03	9.20	9.63
Taiwan	16.20	15.25	10.75	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25
Thailand	16.50	17.00	16.00	15.50	15.50	15.50	16.00	16.00	16.50	17.00	n.a.
Venezuela	15.00	15.50	17.00	16.00	16.00	16.00	16.00	16.00	14.50	14.50	15.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	13.00	15.50	11.75	12.25	12.63	12.38	12.63	12.38	12.88	13.25	13.88
Canada	13.53	16.18	12.74	12.54	12.57	12.58	12.89	12.78	13.27	13.84	14.13
France	15.23	17.33	15.91	14.36	14.62	14.30	14.06	13.96	14.28	14.37	n.a.
Germany	9.50	10.50	8.20	8.30	8.30	8.30	8.30	8.30	8.00	8.00	n.a.
Netherlands	10.71	11.03	7.80	8.68	8.39	8.53	8.51	8.44	8.39	8.26	n.a.
Norway	11.24	13.36	14.13	13.25	13.25	13.25	13.25	13.25	13.00	13.00	13.00
Spain	14.82	14.76	17.10	20.05	20.37	20.03	19.84	20.19	20.69	n.a.	n.a.
Sweden	11.95	12.94	13.37	12.99	12.40	12.51	12.21	12.15	11.96	11.84	n.a.
Switzerland	n.a.	n.a.	4.87	5.07	4.94	4.94	4.94	4.93	4.91	4.85	4.91
United Kingdom	14.21	16.65	12.34	11.89	11.84	11.51	11.57	11.52	11.61	11.29	11.48
Australia	14.25	16.50	15.00	15.00	15.00	15.00	13.50	14.00	14.50	14.50	n.a.
Japan	8.60	7.70	7.55	7.30	7.29	7.27	7.09	7.05	7.04	6.92	n.a.
Korea	28.20	26.90	15.90	14.20	14.10	14.20	14.20	14.30	14.00	13.60	n.a.
Venezuela	16.15	17.00	18.00	18.00	18.00	18.00	18.00	18.00	17.50	17.50	17.50

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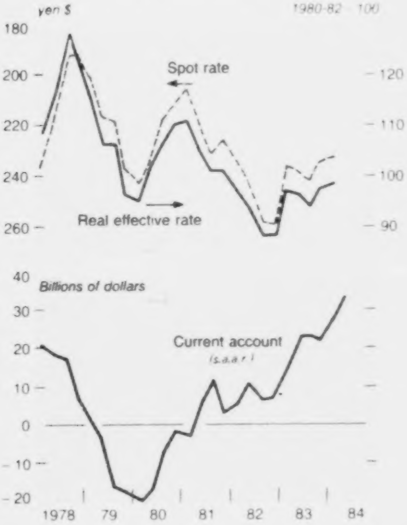
Chart 1

Japan: price competitiveness and current account balance



Japan's financial liberalization and yen internationalization

In late May, in time for the London economic summit, the U.S. Treasury and Japan's Ministry of Finance concluded negotiations to accelerate liberalization of Japan's financial system and to widen the international use of the yen. U.S. officials believe both are necessary if Japan, as a major economic power, is to meet its responsibility to encourage the free flow of goods and capital. In that way, one source of what others see as yen undervaluation could be corrected.

The urgency of the bilateral discussion was heightened by the prospect that Japan this year will roll up a surplus on current account approaching $30 billion — in vivid contrast not only to the deficit of $85 billion or more in store for the United States, but also to the $11 billion deficit Japan itself sustained as recently as 1980 (see Chart 1). Disequilibrium is most keenly felt on merchandise trade account, where Japan's surplus could hit $40 billion this year, of which its bilateral surplus with the United States will represent more than half (see Table 1). At the same time, the U.S. trade deficit overall could run close to $120 billion. These imbalances pose a critical challenge to the continued political viability of a liberal international trade and payments system. Particularly sensitive to foreign partners is the fact that although Japan has grown to be the free world's second-ranking industrial power, producing over 20% of total manufacturing output of the major seven countries, its manufactures imports are a mere 7% of the total.

Japan's external surplus has multiple sources, including its economic policy, nontariff barriers, cultural attitudes, and yen weakness. Over the past three years, restrained fiscal and monetary policies have contained growth in *domestic* demand to a modest 2.2% per annum and in imports to 1%. Japan's overall 3.4% real GNP growth has thus been largely export-led. Whatever may once have been the case, Japan's feeble appetite for imports no longer owes much to tariffs and quotas. Since the late 1960s, Japan has lifted quotas on most goods and has lowered tariffs, in contrast to retrogression in the United States and Europe. Only 27 commodities remain under quota, 22 of them agricultural, including beef and citrus fruit. Still, the paucity of manufactures imports contributes to lingering perceptions that Japanese markets

Table 1

Bilateral trade balances of Japan and the United States

in billions of dollars at seasonally adjusted annual rates, customs-CIF valuation, except as noted

	1980	*1983*	*1984 Jan-Apr*
Japan vis-à-vis			
United States	7.0	18.2	—
European Community	8.8	10.4	—
Germany	3.3	3.5	—
United Kingdom	1.8	3.1	—
*East Asian NICs**	10.8	12.7	—
All countries	—10.7	20.4	27.9
FOB balance of payments basis	2.1	31.6	41.9
Current account	—10.8	21.0	33.8
United States vis-à-vis			
Japan	—12.2	—21.9	—31.3
European Community	15.7	—1.6	—15.0
Germany	—1.3	—4.5	—9.1
United Kingdom	2.4	—2.3	—3.2
*East Asian NICs**	—4.1	—14.7	—10.4
All countries	—36.2	—69.3	—126.0
FOB balance of payments basis	—25.5	—60.5	—110.0[e]
Current account	0.5	—40.8	—90.0[e]

*Hong-Kong, Korea, Singapore, and Taiwan.

[e] Estimated.

remain effectively closed.

Japan's major partners doubt that further goods-market liberalization in Japan, at least in a formal, negotiable sense, promises major or speedy remedies for trade imbalances. It is widely believed that removal of all remaining quotas would reduce Japanese trade surpluses at most by $5 billion. Although freer access to Japan's goods markets must still be pursued, the partners now believe the basic issue is a Japanese competitive advantage buttressed by yen undervaluation.

Many reasons are cited for yen undervaluation. However, the new thrust to remedy yen/dollar misalignment stresses the opening of Japan's historically regulated and closed financial system. The United States contends that liberalization will produce a more attractive array of yen assets. Together with reforms to discourage excessive domestic saving, liberalization could strengthen the yen by curbing capital outflows from Japan and encouraging inflows.

For perspective on the U.S.-Japan joint initiative, this article surveys Japan's transition from the financial rigidity that prevailed for thirty years after World War II. It assesses Japan's progress in domestic and external liberalization, its reluctant acquiescence in internationalization of the yen, and the potential of these moves to resolve tensions between Japan and its partners.

Liberalization and internationalization promise important benefits for both Japan and the world at large. Japan's own savers and users of financial services will gain from reduced costs of financial intermediation. And the world at large will benefit from more efficient allocation of scarce capital as well as lessened trade tensions among leading countries. But although liberalization and internationalization will undoubtedly continue, the substance of change and its future pace are by no means assured, since those who stand to lose are mobilized to defend the status quo. Accordingly, the new and potentially significant U.S.-Japanese agreement, reached at U.S. Treasury initiative, will need active follow-up.

Whether financial liberalization alone will achieve a major correction of yen misalignment is open to question. The yen could initially weaken. Both Japan and its partners must face the possibility that more fundamental reforms, such as policies that lessen structural disparities in national savings behavior, may prove necessary to correct currency misalignments. Unless all the major countries are seen to be committed to constructive trade and financial practices, it will be impossible to salvage the present remnants of a liberal trade order that was founded on the presumption of two-way trade, let alone to launch a rollback of protectionism.

Japan's postwar financial system

Until the mid-1970s Japan's financial system was rigidly compartmentalized and was centrally controlled through regulated interest rates and "administrative guidance." It was designed to maximize personal savings so that the investment needs of private industry and the rebuilding of public-sector infrastructure could be financed at low interest rates. High savings by households were fostered by minimal social security provision, tax-exempt savings, limited availability of mortgages and other consumer credit, and by the sheer depletion of financial assets in the aftermath of war. For the population at large, the fruits of savings were to be enjoyed mainly through fast growth in real wages rather than from interest or dividend earnings.

Postwar regulatory restrictions on

financial institutions, imposed by U.S. occupation forces, were designed to segment the system and thus prevent reemergence of the enormous financial-industrial conglomerates that previously had wielded excessive power. The postal savings system offered low-interest, substantially tax-exempt deposit instruments, with maturities generally longer than those of private depository institutions. The proceeds financed the investment requirements of the public sector, as well as such capital-intensive industries as steel and shipbuilding. The 63 private, regional banks offered similar but less tax-advantaged deposit instruments. A portion of those deposits financed local needs, but the greater part was on-lent to the city banks and the long-term credit banks. The latter were allowed to issue three- and five-year debentures to fund the bulk of long-term industrial credit. The 13 city banks, restricted to offering deposits with maturities of two years or less, provided working capital and medium-term loans to industry.

Initially concentrated in households, the major portion of equity holdings shifted in the late 1950s to businesses with close ties to one another and to the banks. The latter underpinned a "main bank" system that provided both ordinary company funding and emergency support. Equity issuance was not a significant source of finance for industry. Although securities companies engaged in equity trading, their underwriting and distribution activities were modest. The scale of operations of trust banks and insurance companies similarly was small during reconstruction. Besides, secondary trading of debt instruments was severely restricted both in scale and in terms of institutional eligibility to participate.

Japan's financial system was substantially insulated from developments abroad. The guiding principle was to forbid virtually all capital transactions, except by prior approval. The authorities followed the prevailing postwar philosophy of minimizing international capital flows, other than for financing trade and specific projects. Ensuring protection of the internal division of financial functions, Japan instituted elaborate exchange controls that remained little changed until the mid-1970s.

Japan's fears of potential foreign dominance motivated the limitation of capital inflows through restriction of foreign ownership of Japanese real estate and foreign direct or portfolio investment in Japan. With approval, however, Japanese firms could issue bonds abroad and contract "impact" (untied foreign currency) loans through foreign banks for domestic use. Conversion of the proceeds into yen met business financing needs and provided balance of payments support. But foreign participation in Japan's domestic financial markets was hardly more than token. While foreign banks could make impact loans, their ability to fund local currency business by currency swaps or through the domestic money markets was contained within limits set by the authorities. Foreign insurance and securities companies were effectively excluded, so as to protect fledgling domestic companies. Foreigners could not by the rules of the exchange, and still cannot in practice, acquire regular memberships in the Tokyo Stock Exchange.

As to capital outflows, the balance of payments constraint necessitated stringent licensing requirements for many years, effectively precluding free access by Japanese residents to foreign assets. In addition, outflow controls supported low interest rates that held down capital expense to the public and private sectors.

Insulated from external competition, this highly segmented system

Chart 2

Social security payments
as percent of GNP

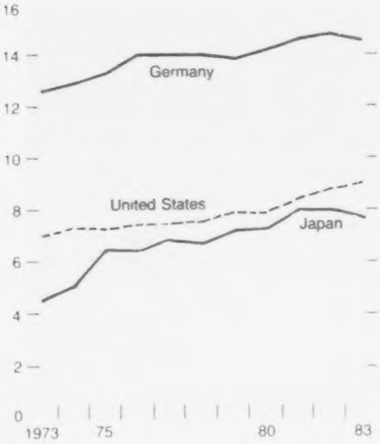
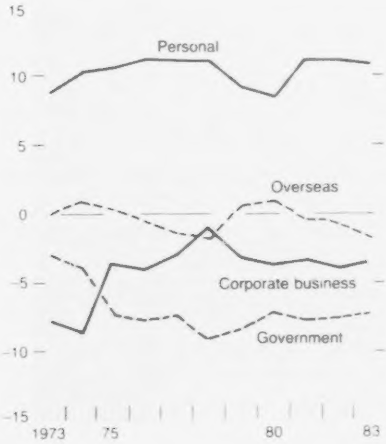


Chart 3

Japan: financial deficits and surpluses by sector
as percent of GNP



worked relatively smoothly from postwar reconstruction through the high-growth period of the 1960s. The excess demand for funds by the fast-expanding corporate sector guaranteed increasing markets for all financial institutions. The personal sector, as major saver in the economy, displayed no significant sensitivity to interest rates. Interest rate differentials were kept down through regulation. Moreover, financial institutions were prohibited from freely advertising interest rates or their other inducements to depositors, ranging from portfolio management to marriage counseling. Thus, comparison shopping was difficult for consumers.

Domestic liberalization

During the 1970s the financial system came under increasing market pressures, principally as a result of a fundamental shift in sectoral flows of funds. Following the first oil shock Japan's trend economic growth roughly halved. Amid excess capacity, the previously strong demand for funds for business investment eased. This proved no mere cyclical phenomenon, but rather marked the effective completion of technology and capacity catch-up with the other industrial countries.

At the same time a large government budget deficit, aggravated by a commitment to step up growth, emerged as Japan instituted more generous social programs (see Chart 2). This was at the very time that the rate of growth in tax revenues was falling as economic expansion slowed. It therefore became necessary to divert still high (indeed rising) personal savings from industrial investment to financing of the budget deficit. In 1973 the surplus of the personal sector was 9% of GNP; by 1978 it was above 11%. Over the same period, the deficit of the corporate sector shrank from 8% to 1% of GNP, but the deficit of the government sector soared from less than 3% to over 9% (see Chart 3).

The shift in funds flows had several major consequences. First, under the syndicate system guided by the Ministry of Finance, government bonds took an ever-rising proportion of city bank portfolios. To contain the debt-servicing burden, interest rates on new issues were often below those in the secondary market. Understandably, the banks sought more dynamic business opportunities than mere acquisition of long-term official paper at a potential loss. In addition, banks lost market share because their regulated interest rates could not compete with rival offerings (see Chart 4). Banks therefore sought freedom both to offer new instruments, such as negotiable CDs, and to enter new business, such as the bond-repurchase (repo) market, and the trading of government bonds as principals.

Second, the structural shift of the government's financial balance into large deficit ballooned government debt outstanding from 6% of GNP in 1973 to over 35% today (see Chart 5). This would have had inevitable inflationary implications if the banks were still required to acquire the bulk of government debt issues. Consequently, a secondary market had to be developed in which government paper could be placed with nonbank investors and through which banks could shed unwanted holdings. This secondary-market development permitted the Bank of Japan to target broad money supply (M2 + CDs) to achieve price stability.

Third, with the cutback in their investment outlays, industrial corporations were now more liquid and eager for better returns on their surplus funds (see Table 2). Long-term credit banks, which specialized in mobilizing funds to finance double-

Chart 4

Sources of funds to final users
by percent shares

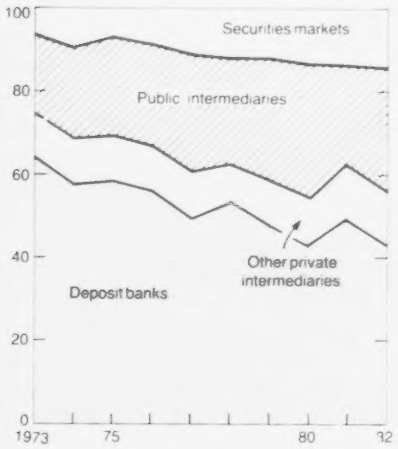
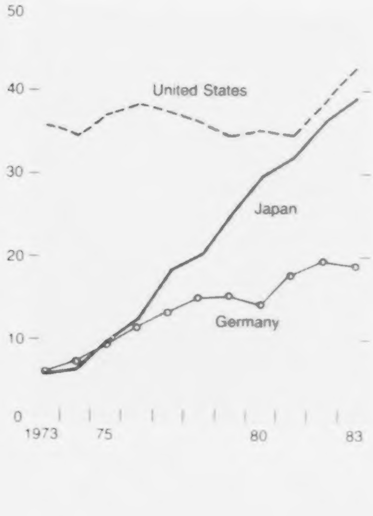


Chart 5

Central government debt
as percent of GNP



digit growth in private investment, searched for a new market niche as their original mission waned. Securities companies in Japan, as elsewhere in the West, became more innovative. In fact all sectors of the economy became increasingly conscious of Western financial innovations and, accordingly, grew more assertive in demanding and seeking out investment opportunities at market-related rates.

In 1977 restrictions were removed on the sale into secondary markets of government bonds held more than one year by financial institutions. The adoption in early 1978 of an open bidding system for Bank of Japan open-market operations paved the way later that year for a similar system for new issues of government bonds in the two-to-four-year maturity range. Deregulation of interest rates in the call-loan and bill-discount interbank markets, the lifting of restrictions on banks' participation in the repo market, and the establishment of a market for negotiable CDs without interest-rate ceilings all took place in 1979. The rapid expansion of new short-term market instruments and secondary markets in government bonds, together with interest arbitrage and liberalization of interbank markets, has compelled greater market orientation of administered rates and interest rates generally.

The struggle for turf and pressures for further change

Perhaps the most striking development on Japan's financial scene during the past decade has been the decline of the once-dominant role of the deposit banks (see Table 3). Not only have the borrowing needs of corporations declined, but also the preferences of a rapidly aging and prosperous population have shifted toward life insurance and other assets yielding more than regulated bank deposits. Historically high interest rates and a wider array of financial instruments have spurred the interest rate sensitivity of Japanese savers (see Chart 6).

The commercial banks' main problem has been the slow adjustment of regulatory constraints. Competition has come from both public and private financial institutions. By offering higher effective yields the postal savings system has increased its market share. With regulated deposit rates embodying the principle of “the longer the maturity, the higher the rate,” restriction of the longest maturity of commercial bank time deposits until recently to only two years has been a distinct handicap. In contrast, postal savings can offer up to 10-year deposits with the added inducement of interest compounding. Moreover, the tax code, which exempts interest income from an individual's first Y3 million in savings deposits, is less stringently enforced on postal savings than on bank deposits. The securities companies have also gained ground on the commercial banks through the introduction of a medium-term government bond fund and by the vigorous expansion of the repo market, from which the banks initially were excluded. However, the introduction of negotiable CDs in May 1979 and the admission of commercial banks to the repo market have gone some way to restore bank competitiveness.

Agreement in principle has emerged that restraint on the asset and liability powers of financial institutions must be relaxed. However, the general principle guiding the various institutions is that those who are currently confined to relatively low-growth areas — for example, depository institutions specializing in industrial lending — want access to markets with higher growth potential; those who are already in such higher growth areas want to impede new entrants as long as possible. Given Japan's demographic profile and the projected size of government borrowing, the major growth areas are seen as government bond distribution and dealing, pension fund management, and life insurance.

In the matter of government bond distribution and dealing by entities other than securities companies, the rules have recently been significantly relaxed. Later this year, for example, "qualified" foreign banks can trade existing government bonds for their own account, as designated commercial banks are now beginning to do. This concession to banks is being made primarily to prepare for the quantum jump in government bond issues beginning next year as the large issues of 10-year government bonds that have been offered continuously since 1975 start to mature. The government's gross borrowing requirement will nearly double next year (see Chart 7). The terms on new bonds will have to approximate the prevailing yields in free secondary markets and will add to pressures for interest rate liberalization. Otherwise, regulated institutions may lose market share or even fail.

The growth in pension business involves not only an increase in traditional fund management but also of annuity business. Companies are seeking to lessen strains on their own resources by moving away from the customary lump-sum settlements to retirees (made generally at the age of 55). Besides one city bank operating under a grandfather clause, there are only twenty-one life insurance companies and seven trust banks that can engage in pension business under existing laws. Most major Japanese financial institutions, as well as some foreign institutions, are devoting considerable resources to gear up for entry into this prime growth area.

As restrictions on the size and maturity of negotiable CDs are relaxed, market pressures are building to decontrol rates on regular savings and time deposits, including those on small postal deposits administered by the Postal Ministry. It has been commonly assumed that decontrol of large deposits, those most vulnerable to competition from rival instruments, would precede the freeing of small deposits. However this may not be so, given the tangle of political and bureaucratic vested interests in the status quo and their conflicting objectives for the future. No matter that there are official proponents of deregulation, resolution of differences will be slow at best.

It is unclear whether deposit rate deregulation will result in generally higher lending rates to ultimate borrowers. Even if deposit rates rise, financial intermediaries should have scope to cut back noninterest expenses. Further, to the extent the relatively free rates in negotiable CD and repo markets already determine the marginal cost of funds, lending rates could be little affected.

As deposit rates are freed, pressures for lending rate liberalization will also mount. The traditional mechanism — the prime rate system — adjusts loan rates in lockstep with the official discount rate and the yield on long-term credit bank debentures. In turn, the latter is linked to the new-issue rate on long-term government bonds. This mechanism is outdated and is seen by Japanese bankers as a competitive handicap. As a test case, they are planning to offer yen loans to high-grade foreign borrowers at rates linked to those on CDs. Such a loan rate would be 7.5%, well below the 7.9% conventional long-term prime rate but close to the 7.3%-7.4% on yen bonds issued by foreign borrowers. With the prospect for greater fluctuation in both deposit and lending rates, the lending

Table 2

Increases in corporate financial assets

average percent shares of total net incremental placements

	1970-74	*1975-79*	*1980-83*
By instrument			
Deposits	61.2	40.4	51.1
Yen			
Demand and time	59.0	25.3	7.8
CDs	—	3.9	16.6
Foreign currency	2.2	1.2	26.7
Equity	28.9	29.4	36.5
Other securities	9.9	30.2	12.4
Percent of total			
In foreign currency	2.8	2.7	34.8
Open-market interest-bearing	8.1	31.3	54.1

Table 3

Increases in personal financial assets

average percent shares of total net incremental placements

	1970-74	*1975-79*	*1980-82*
Cash and demand deposits	20.0	10.7	5.2
Time and savings deposits	53.0	55.4	56.4
Postal savings	15.5	20.8	22.8
Private institutions	37.5	34.5	33.6
Trust and insurance investments	18.9	20.4	26.6
*Equities**	0.5	0.9	0.6
Central government bonds	0.6	0.4	5.2
Other	7.0	8.5	6.0

*At acquisition cost.

Chart 6

Interest rates and inflation
in percent

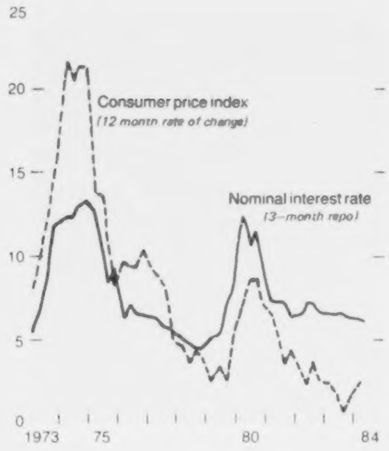
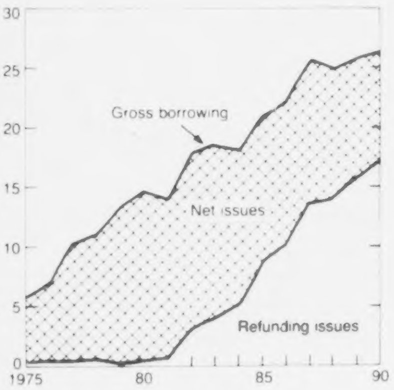


Chart 7

Government borrowing
official projections for central government bond issues, in trillions of yen



of long-term funds at fixed rates will likely decline, challenging the continuing distinction between institutions specializing in short- and long-term finance.

Market segmentation also will erode as the various institutions compete with the new financial products made possible by rapidly changing information technology. For example, it is probable that securities companies will soon introduce cash-management services. As U.S. experience makes clear, these are functionally indistinguishable from the transactions services provided by commercial banks. For the securities companies this innovation represents a quid pro quo for the commercial banks' entry into government bond dealing.

Financial innovations and disparate institutional interests are moving the Japanese financial system inexorably toward greater deregulation and competition, despite the continuing official concern to safeguard institutions that would lose from a financial free-for-all and to manage any adverse consequences thereof.

Internationalization of the yen and Japan's global integration

The post-oil shock environment also created pressures on Japan for *external* financial liberalization. When the country's current account balance turned temporarily into deficit, controls on capital inflows were relaxed to help finance increased oil costs. After December 1973 residents were permitted to issue foreign-currency denominated bonds. Such issues had been banned during the previous three years when the current account had been in surplus and the yen was under strong upward pressure. There also was easing of controls on inflows of portfolio and direct investment, motivated partly by reciprocity considerations that were forcefully advanced by Japan's trade partners. In May 1979 the prohibition on foreign participation in the expanding repo market was repealed. Foreign investors were allowed full participation in the CD issue and secondary markets that opened in the same year. However, cumbersome prenotification and re-registration requirements in the secondary market frustrated foreign investors.

The slowing of Japan's own economic growth after the oil shock heightened the interest of Japanese firms in expanding operations abroad, pulling in their wake Japanese banks, which also were hit by the slowdown at home. Japanese companies sought both to increase their investment returns and to diversify their assets. More generally, the question was how best to deploy Japan's excess domestic savings. At least for a time, the authorities endeavored to manage these pressures for internationalization with a deliberate eye to their exchange rate objectives, easing — and, sometimes, reimposing — controls on foreign exchange transactions to influence the yen's value against other currencies.

Many liberalization steps were at first informal, such as the 1979 relaxation of maturity and eligibility restrictions on impact loans to include general trading companies as borrowers and foreign subsidiaries of Japanese banks as lenders. Other important elements of liberalization were formally ratified or introduced by the 1980 overhaul of Japan's exchange control law.

In contrast to the earlier predisposition toward prohibition, the revised principle was that external transactions should be free. Nonetheless, an elaborate system for monitoring capital inflows and outflows was retained, important discretionary controls remained in place, and the murky application of

Table 4

Domestic and Eurocurrency capital markets: end-1983

data partly estimated from 1982 outstandings and 1983 transactions; in billions of dollars, except as noted

	Japan	United States	Germany
Direct investment assets	33	213	30
as % of 1983 GNP	2.8	6.4	4.5
Direct investment liabilities	4	112	19
as % of 1983 GNP	0.4	3.4	3.0
Domestic equities and bonds	1434	4104	451
of which foreign-held	80	263	22
foreign-held as % of total	5.5	6.4	4.8
as % of 1983 GNP	6.9	7.9	3.3
Foreign bonds issued in domestic market	14.4	63.5	16.5*
Foreign holdings of short-term local currency bank liabilities	13.7	138.9**	17.5
of which, deposits	9.5	36.3**	n.a.
Eurobonds***	1.4	113.4	16.5*
Eurocurrency deposits***	34	1722	181

*Distribution of DM bonds estimated from new issue volume since 1976.

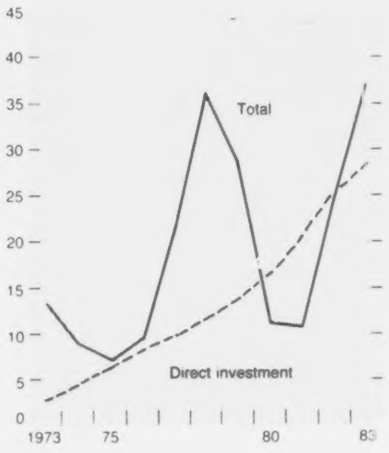
**In currencies of respective countries.

***IBF liabilities classified in Eurodollar deposits.

Chart 8

Net external asset position

in billions of dollars



administrative guidance continued. Besides, "emergency" provisions enabled the authorities in effect to suspend the new law's application in the event of balance of payments deterioration, large fluctuations in the yen or other currencies, or large transfers of funds between Japan and other countries adversely affecting domestic money and capital markets.

The revised law mainly affected four classes of international transactions. First, instead of the earlier Y3 million limit, Japanese residents were granted unlimited freedom to exchange yen into foreign currency deposits. Second, Japanese banks were permitted to borrow and lend foreign currencies without restriction at home and abroad, at least in principle; the remaining restrictions on their granting of impact loans also were lifted. Third, Japanese companies were given greater freedom to borrow abroad. Fourth, the scope for foreign investment in Japanese securities was materially widened, especially in equities. For example, the former general limitation of foreign ownership to 25% was lifted, except for a select list of "designated" companies, 11 in number. However, the government has retained discretion to amend that list.

Cumulatively, Japan's gradual relaxation of external controls has led to significant integration of its capital markets with those abroad, although that integration is by no means complete. The legacy of past restrictions shows in direct investment, where Japan's net position has grown year after year (see Chart 8). Despite Japan's higher economic growth performance and potential, cumulative foreign direct investment in Japan is the lowest among major industrial countries relative to GNP (see Table 4).

In the area of portfolio investment, by contrast, global integration of Japan's capital market has proceeded rapidly of late. By 1982 only U.S. stock and bond markets outranked Japan's in foreign participation, both absolutely and relative to market capitalization and GNP. Moreover, Japan is now second only to the United States as an issuing center for foreign bonds (local-currency-denominated international bonds issued by foreigners) (see Chart 9).

In other respects, however, internationalization of the yen is barely off the ground. The yen shares of both Eurocurrency deposits and Eurobond markets remain negligible, principally because the Japanese authorities are reluctant to see the offshore yen market grow. They fear erosion of their ability to maintain domestic monetary control. For the same reason, Japan has discouraged the yen's potential reserve currency function. At the end of 1982, only 3.7% of world official foreign exchange reserves were held in yen — barely one-third the proportion held in German marks (see Table 5). Euroyen restrictions and the absence of a treasury bill market are the main impediments to the yen's assumption of a reserve role commensurate with Japan's economic power.

Further evidence of the yen's limited internationalization can be seen in its modest use in trade finance. Without even touching its potential application in third-country trade, the yen at present is used to denominate only some 40% of Japan's own exports. Of Japanese imports, a mere 3% are yen-based — a condition said to reflect dollar pricing in the markets for the fuel and raw materials that make up virtually all of Japan's merchandise imports. One deterrent to a more significant role for the yen in trade finance would seem to be the absence of a yen bankers' acceptance market.

Since the mid-1960s Japan has recorded net long-term capital outflows in every year save 1980, out-

Chart 9

New foreign bond issues by market

percent shares

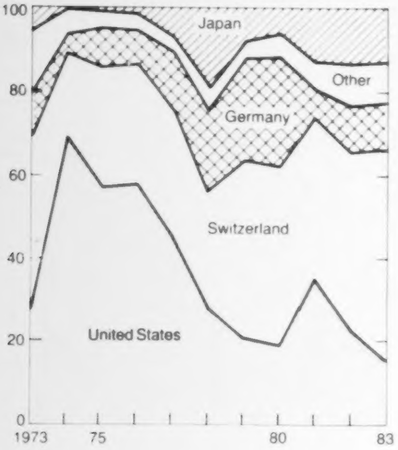


Table 5

The yen as reserve currency

percent shares of world official foreign exchange reserves; year-end data

	1975	1980	1982
Japanese yen	0.6	3.2	3.7
Dollar	85.1	59.2	63.5
European currency unit	0.0	17.9	15.3
German mark	6.6	12.5	11.0
Swiss franc	1.7	2.8	2.5
Pound sterling	4.1	[illegible]	2.1
Other	1.9	[illegible]	1.9

*French franc and Dutch guilder. Reserve holdings of unknown currency composition are omitted from the share calculations.

flows that have accelerated since 1981 in response to high U.S. interest rates and the December 1980 relaxation[1] of capital controls. Significantly, the widening of net capital outflows from Japan has been due solely to the surge in gross capital *outflows*. Gross capital *inflows* have remained essentially steady (see Chart 10). The contrast between vigorous outflows and sluggish inflows gives some credence to foreign suspicions that Japan has managed its external liberalization in a way that depresses the yen's exchange value and thereby maintains unfair competitive advantage for Japanese business. The Japanese, however, maintain that it is high U.S. interest rates that are the prime cause of the capital flow imbalance.

U.S.-Japan joint initiatives

By the time of President Reagan's visit to Japan last November, the United States was convinced that yen undervaluation could not be remedied without tackling Japan's Byzantine system of financial regulation. This has restricted the range of attractive yen assets, has impeded use of the yen as a major international vehicle and reserve currency, and has limited trade in financial services where U.S. institutions enjoy comparative advantage. Accordingly, the United States has pressed manifold proposals to open up the Euroyen market, to further liberalize Japan's domestic financial system, and to improve opportunities for foreign financial institutions in Japan.

Last November, the U.S. and Japanese governments reached an eight-point agreement by which the Japanese Ministry of Finance committed itself to ease guidelines on Euroyen bond issuance by residents; to reform the designated company system; to relax size and maturity restrictions on CDs; and to submit a bill enabling the issue of foreign-currency, government-guaranteed "Nakasone" bonds. In principle, these measures should help strengthen the yen by encouraging capital inflows into Japan. There was a further commitment to eliminate the "real demand" rule governing forward foreign exchange transactions, a rule hindering cross-currency hedging and swaps.

These commitments have since been implemented, at least to a degree. But their practical consequences may not be great unless the new freedoms are actively exploited — which is by no means certain. For example, on April 1 the number of Japanese firms eligible to issue Euroyen bonds, straight or convertible, was increased considerably. However, since such Euroyen issues by residents are subject to withholding taxes, there is more active interest in the functionally similar, but tax-exempt, yen-linked Eurodollar bonds and also in low-coupon convertibles.

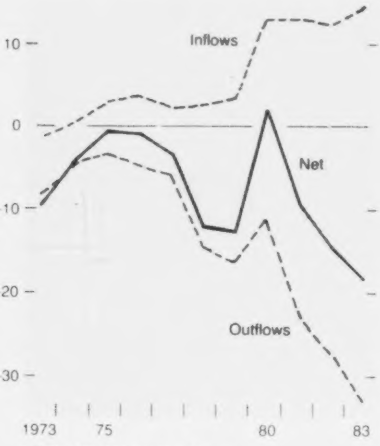
Along with the November agreement, the U.S. and Japanese governments formed a joint working group to develop recommendations for further reforms. In April, during these discussions, quotas on medium- and long-term yen bank lending abroad were abolished. But the Ministry of Finance has strengthened reporting requirements, which would facilitate restrictions in the event such lending shows "unusual" increase.

As the discussions of the working group progressed, the proposed timing of future decontrol measures was made known. Starting this month, for example, both Japanese and non-Japanese banks are allowed to make short-term Euroyen loans; yen bond market restrictions are being eased to accommodate additional foreign private borrowers besides the official issuers who have predominated to date; qualified domestic banks may undertake second-

Chart 10

Long-term capital flows *

in billions of dollars



* Excluding repo transactions.

Table 6

Increases in corporate liabilities and stock issue

average percent shares of total net incremental finance

	1970-74	*1978-80*	*1981-83*
By source			
Loans	83.9	58.1	60.9
Yen	82.5	53.2	47.7
Foreign currency	1.4	4.8	13.2
Bonds	6.0	17.1	14.1
Yen	6.1	13.0	4.6
Foreign currency	—0.1	4.1	9.5
Stocks	10.1	24.9	25.0
Domestic issue	10.1	24.1	23.4
Foreign issue	0.0	0.8	1.6
By currency			
Yen	98.7	90.3	75.8
Foreign currency	1.3	9.7	24.2

ary dealing in g[illegible] [illegible]nds; and currency s[illegible] [illegible]its [illegible] [illegible]ished for all ban[illegible] [illegible]urther reforms, to take effect by December, will permit issuance and trading of Euroyen CDs with up to six-month maturities, virtually eliminate ceilings on Euroyen bond issues by nonresidents, and allow foreign institutions to lead-manage Euroyen bond issues.

With these plans disclosed in advance, the May 29 final report of the working group introduced only three new decisions of real significance: from April 1985 banks will be allowed to issue new types of large denomination deposit instruments at market interest rates; interest rate controls on large time deposits are to be abolished or substantially relaxed within two to three years; and foreign banks will be allowed to enter domestic trust and pension business within one year, possibly through wholly owned subsidiaries or by joint ventures with Japanese trust banks.

Assessment

Both governments hailed the agreements reached by the working group as a "historic document." Indeed, the collective breadth and depth of the liberalization measures introduced or planned since last November surpass most early hopes. The new opportunities accorded foreign financial institutions are encouraging, as exemplified by the abolition of swap limits and the commitment to grant trust licenses to foreign banks. More important, and in the face of muted opposition from the Bank of Japan and the strong resistance of long-term credit banks, the Euroyen market is being effectively opened except for two remaining restrictions: the withholding tax levied on interest received by nonresident holders of Euroyen bonds issued by residents; and, with the apparent exception of Euroyen lending by non-Japanese banks to nonresidents, the prohibition of syndicated Euroyen loans with maturities beyond one year. While troublesome, these restrictions should not stifle many dimensions of potential growth in Euroyen business. Its growth will spur domestic liberalization.

Nevertheless, major tasks still lie ahead. Several critical issues have been deferred for further study or lack official commitment to definite action: abolition of the above-noted withholding tax; establishment of a yen bankers' acceptance market, likely to be resolved by the end of this year; establishment of markets for currency futures and treasury bills; decontrol of rates on small deposits, to be achieved only over some unspecified, longer time period because of the postal savings problem; and regular foreign membership in the Tokyo Stock Exchange, which restricts the number of seats to a mere 83 at a going price of Y1 billion ($4 million).

Besides, many features of the working group agreement, such as those that provide a role in implementation for advisory committees, fall short of watertight commitment on the part of the Japanese authorities. Thus follow-through is all-important, especially in view of the long history of problems with Japan's lack of administrative transparency, at least in the eyes of foreign institutions.

Moreover, despite the major concessions toward fostering Euroyen markets, there is continuing official ambivalence toward an international role for the yen commensurate with Japan's economic size, partly out of ostensible concern for effective monetary control. This concern underlies the reluctance to set up an offshore market in Tokyo akin to New York's IBFs. Monetary control could be adversely affected if residents' and nonresidents' demand proves unpredictable, either for the money stock in Japan or its monetary base. In fact, both the money multiplier linkage between the monetary base and the aggregates and the income velocity linkage of the aggregates to nominal spending appear relatively stable. Further, U.S. evidence suggests monetary base control need not be endangered by offshore markets, provided exchange and interest rates are allowed to fluctuate freely. Thus, Japan's concern may be exaggerated.

It is vital that the free world's second largest economy be integrated into the global financial system. Not only does this promise economic benefits for Japan, especially for its own consumers of financial services, it also can help defuse some of the resentment felt by its trade partners who believe Japan still is unwilling to accept the international responsibility that comes with economic power. If it is true that Japan enjoys an enduring comparative advantage in manufacturing, it follows that others have a comparative advantage in the field of financial and other services. Bringing down the barriers to trade in services would be mutually beneficial.

It is wise not to expect too much from the new U.S.-Japanese agreement in the way of yen appreciation. Simultaneous two-way liberalization of capital inflows and outflows may not secure predictable strengthening of the currency in the short run, as is evident from recent experience with the liberalization of the portfolio rules for Japanese insurers. Their buildup of foreign assets has undoubtedly depressed the yen, given the large interest rate differential in favor of the dollar. How soon that diversification drive will be satisfied is difficult to judge. In the longer run, however, thoroughgoing two-way liberalization, emphasizing introduction of a broad menu of yen assets accessible and attractive to foreigners, should shift portfolio preferences and may well lead to a new capital-flow equilibrium in which the yen strengthens.

There is another way in which the new agreement may help create a more level playing field for Japan's competitors. Historically, high savings in Japan, together with a debt-oriented financing structure and artificially low interest rates in a sheltered environment, provided Japanese industry a major advantage in its effective cost of capital. That advantage has eroded significantly, given the rise in Japan's interest rates and its industry's increased resort both to equity and to foreign bond and loan finance (see Table 6). Closer integration of Japanese and global capital markets should further narrow the remaining capital cost advantage.

However, Japan's liberalization and integration commitments have to be translated into practice. External political considerations now make it imperative that Japan be seen to proceed expeditiously and wholeheartedly with the implementation of its agreement with the United States. Indeed, Japan's trade partners would be further encouraged in their hopes that Japan is now fully committed to a liberal financial order, if Japan were to accelerate its timetable for decontrol and adopt additional liberalization measures, many of which already command significant acceptance in principle.

In addition, basic economic policy changes are needed. Japan's partners — especially the United States and the EC — should recognize that their trade differences with Japan, while sometimes stemming from unequal competitive conditions, more often reflect their own deficient savings and laggardly restructuring by their own industries. Often, their savings are hampered by lax budget policies and fiscal disincentives. By contrast, Japan has consistently encouraged high personal savings through tax and institutional incentives. On both sides, the time is overdue for greater convergence of saving. So long as Japan saves more domestically than it invests at home, current account surpluses and companion trade problems are likely to persist.

Statistical appendix

for key to data in tables see April 1984 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average = 100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1983																
June	114.3	100.8	106.6	89.4	86.4	107.6	90.7	93.6	103.4	90.2	104.6	78.3	110.6	96.2	99.5	82.2
July	115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August	117.0	101.2	106.2	91.5	85.6	106.5	89.6	94.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November	116.5	100.9	110.7	94.8	85.1	107.1	88.3	92.8	103.2	88.4	104.4	75.9	112.8	94.6	100.9	82.7
December	118.0	100.4	112.1	94.2	84.7	106.8	88.0	91.8	102.8	88.2	104.1	75.8	113.8	94.0	99.5	83.1
1984																
January	119.1	100.5	113.3	95.5	84.1	106.5	87.6	91.5	102.6	87.7	103.7	76.3	113.8	93.6	99.2	83.4
February	117.3	100.2	111.9	97.3	84.7	108.0	87.0	91.4	103.5	88.3	104.3	77.1	112.2	94.0	99.0	82.9
March	115.4	98.0	114.7	97.2	85.3	109.0	87.2	89.8	104.2	89.0	105.0	77.2	111.7	94.6	98.7	83.5
April	116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
May	119.4	96.8	114.6	95.1	84.6	107.7	87.0	89.3	103.7	88.8	104.4	78.4	110.8	93.6	99.1	83.5
May 4	118.3	97.0	115.9	96.3	84.8	107.9	86.8	89.4	103.8	88.7	104.3	78.3	110.9	93.6	99.2	83.7
11	119.7	96.8	115.5	95.6	84.4	107.4	86.8	89.5	103.5	88.7	104.3	78.3	110.8	93.4	99.2	83.6
18	119.7	96.9	114.0	94.3	84.5	107.6	87.0	89.5	103.8	88.8	104.4	78.5	110.8	93.7	98.9	83.6
25	119.7	96.7	113.8	94.6	84.5	107.9	87.1	89.0	103.7	89.0	104.5	78.5	110.8	93.6	99.0	83.5
June 1	119.2	96.8	114.0	94.1	84.9	108.2	87.0	88.9	103.8	88.8	104.5	78.2	110.9	93.6	99.1	83.3

Real effective exchange rates

Index numbers, 1980-82 average = 100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	89.5	99.6	103.1	93.0	102.2	103.5	103.5	99.3	100.2	107.5	100.0	102.0	98.7	103.7	96.7	101.3
1981	100.7	100.0	104.7	102.8	100.2	97.4	98.7	102.1	99.1	100.3	97.7	99.0	98.8	99.4	101.0	102.1
1982	109.8	100.4	92.3	104.2	97.7	99.1	97.8	98.6	100.7	92.2	102.4	99.0	102.5	97.0	102.4	96.6
1983	112.6	103.0	96.5	99.9	95.9	99.3	100.0	93.0	101.6	91.9	101.7	89.5	105.2	98.6	101.1	91.4
1983																
June	112.7	103.4	95.4	96.8	94.4	99.4	100.2	95.2	101.1	92.5	101.1	89.6	104.2	99.0	101.5	91.1
July	113.4	103.7	95.3	97.4	95.2	98.5	100.3	94.9	101.3	91.9	101.4	87.8	104.9	96.9	101.0	92.7
August	115.4	103.9	93.7	99.6	94.5	98.1	99.0	95.4	100.6	91.6	101.0	88.0	105.9	96.2	101.0	93.1
September	114.1	104.4	94.8	100.9	95.1	98.3	99.5	95.4	100.6	90.7	101.0	88.3	105.6	97.7	103.2	92.4
October	113.2	103.2	97.3	102.2	95.5	98.9	99.6	93.5	101.4	90.6	100.9	87.8	105.8	97.6	102.6	92.4
November	114.4	103.2	97.3	104.0	95.5	97.8	99.6	94.3	100.8	90.5	100.2	88.3	105.8	96.8	102.3	93.2
December	115.4	102.9	98.5	103.6	95.5	97.3	99.7	93.0	100.4	90.5	99.7	88.8	106.3	95.6	101.3	94.0
1984																
January	116.1	103.4	99.1	105.2	94.3	96.7	100.2	92.9	102.1	89.4	100.6	89.8	106.0	95.3	101.2	95.0
February	114.1	103.4	97.6	107.4	95.7	97.8	100.0	92.9	102.9	89.4	101.0	90.9	104.2	96.9	101.4	94.6
March	112.0	101.4	99.8	107.5	96.8	98.4	100.4	91.5	103.6	90.1	101.8	91.6	103.6	96.2	100.8	95.7
April	113.0	101.1	100.4	105.3	96.7	97.8	101.2	90.7	103.0	89.8	102.0	93.1	103.0	95.1	100.6	96.5
May	115.3	100.7	99.1	105.5	96.4	96.8	101.4	91.2	103.0	89.3	101.9	94.0	102.3	94.7	100.9	96.7

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

		1980	1981	1982	1983		1984				
		Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May
Eurodollar	*overnight*	19.25	12.87	9.25	9.00	9.50	9.25	9.38	10.13	10.25	10.50
	one month	19.12	13.31	9.12	9.69	9.69	9.50	9.88	10.44	10.63	11.06
	three months	17.55	13.75	9.19	9.75	9.81	9.63	10.13	10.63	10.94	11.75
	six months	16.37	14.81	9.50	9.94	10.06	9.88	10.38	10.94	11.25	12.50
	twelve months	14.87	14.75	9.62	10.31	10.37	10.19	10.81	11.44	11.75	13.63
Euro-Canadian dollar	*one month*	17.50	15.37	10.00	9.25	9.12	9.63	9.63	10.00	10.00	10.69
	three months	16.88	15.37	10.00	9.37	9.50	9.63	9.81	10.38	10.50	11.38
	six months	15.37	16.37	10.13	9.56	9.75	9.88	10.00	10.69	10.94	12.31
	twelve months	14.00	16.37	10.25	9.75	10.00	10.06	10.38	11.19	11.44	13.38
Euro-French franc	*one month*	11.12	15.75	23.00	12.25	12.12	12.13	16.00	12.94	11.94	12.00
	three months	11.75	17.00	24.00	13.19	12.19	13.00	17.25	14.38	13.13	13.18
	six months	12.25	18.00	22.00	14.12	12.31	13.75	16.75	15.13	13.88	14.18
	twelve months	12.87	18.25	19.75	14.69	12.62	14.38	16.13	15.88	14.88	14.94
Euromark	*one month*	8.87	10.44	5.87	6.19	5.25	5.69	5.69	5.50	5.44	5.63
	three months	8.87	10.50	5.87	6.19	5.87	5.88	5.81	5.56	5.63	5.94
	six months	8.87	10.56	5.94	6.19	6.12	6.19	6.94	5.75	5.75	6.25
	twelve months	8.93	10.25	6.00	6.44	6.37	6.38	6.19	6.13	6.19	6.81
Euro-Dutch guilder	*one month*	8.87	10.75	5.12	6.00	5.81	5.88	5.94	6.06	5.75	5.94
	three months	9.31	10.75	5.19	6.19	6.00	5.94	6.00	6.06	5.94	6.13
	six months	9.37	10.75	5.38	6.31	6.25	6.13	6.06	6.19	6.06	6.44
	twelve months	9.62	10.75	5.63	6.62	6.37	6.44	6.44	6.50	6.44	6.94
Euro-Swiss franc	*one month*	6.00	8.87	2.81	4.06	3.37	3.00	3.44	3.50	3.31	3.94
	three months	6.00	9.25	3.25	4.06	3.75	3.44	3.63	3.63	3.63	4.06
	six months	5.75	9.25	3.44	4.19	3.94	3.81	3.88	3.81	3.94	4.44
	twelve months	5.50	8.50	3.44	4.37	3.94	3.94	4.13	4.13	4.19	4.75
Eurosterling	*one month*	14.75	15.37	10.56	9.06	9.12	9.19	9.13	8.75	8.56	8.94
	three months	14.75	15.69	10.44	9.25	9.31	9.38	9.19	8.88	8.81	9.81
	six months	14.25	15.69	10.31	9.44	9.50	9.56	9.31	9.06	9.06	10.44
	twelve months	14.00	15.37	10.31	9.69	9.81	9.88	9.50	9.31	9.38	10.94
Euroyen	*one month*	9.12	6.12	6.75	7.25	6.25	6.13	6.88	6.19	6.00	6.38
	three months	9.25	6.12	6.75	6.75	6.31	6.31	6.56	6.19	6.19	6.38
	six months	9.62	6.87	7.10	6.69	6.38	6.31	6.50	6.25	6.25	6.44
	twelve months	9.37	6.87	6.81	6.69	6.44	6.44	6.63	6.38	6.31	6.56
European currency unit	*one month*	11.04	14.63	12.44	8.44	8.63	8.81	9.00	10.00	8.81	9.00
	three months	11.57	14.75	12.31	8.81	9.06	9.19	9.31	10.00	9.06	9.38
	six months	11.75	15.00	12.00	9.19	9.44	9.44	9.63	10.00	9.56	9.88
	twelve months	11.65	14.56	11.19	9.63	9.63	9.63	9.94	10.13	10.00	10.25

International bond issues — by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-May	
				Mar	Apr	May	1984	1983
Eurobonds	**31 616**	**51 645**	**48 476**	**5 988**	**6 114**	**1 391**	**28 697**	**20 666**
U.S. dollar	26 830	43 959	38 403	4 139	4 871	1 119	22 602	16 648
Canadian dollar	634	1 201	1 039	111	106	10	355	416
German mark	1 277	2 588	3 817	406	466	91	1 832	2 130
British pound	501	748	1 947	623	270	—	1 715	395
Japanese yen	368	374	212	—	133	65	305	148
European composite units	309	1 980	2 019	491	123	80	1 295	577
Other	1 697	795	1 039	218	145	26	593	352
Foreign bonds	**21 369**	**26 397**	**26 822**	**2 841**	**4 083**	**1 495**	**13 282**	**13 716**
U.S. dollar	7 552	5 946	4 545	1 078	1 690	150	3 218	2 498
German mark	1 310	2 952	2 671	154	132	146	901	1 347
Dutch guilder	481	956	1 053	—	67	65	352	593
British pound	746	1 214	811	51	184	126	628	169
Swiss franc	8 285	11 432	14 299	1 287	1 649	572	6 390	7 123
Japanese yen	2 457	3 418	3 772	266	356	303	1 438	1 730
Other	538	479	671	5	5	133	355	256
Total	**52 985**	**78 042**	**76 298**	**8 829**	**10 197**	**2 886**	**41 979**	**34 382**

International bond issues — by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-May	
				Mar	Apr	May	1984	1983
Industrial countries	**40 861**	**63 062**	**60 278**	**8 096**	**8 995**	**2 506**	**36 606**	**28 874**
Australia	991	2 250	2 529	271	171	98	870	525
Austria	1 557	1 668	1 265	261	235	50	1 045	765
Belgium	527	211	1 153	161	146	43	350	404
Canada	10 648	11 979	7 411	568	1 091	164	3 256	3 722
Denmark	695	1 269	1 719	384	130	100	1 487	626
Finland	672	815	866	185	80	102	702	460
France	3 156	8 456	6 461	375	5	285	2 591	3 872
Germany	279	1 101	3 095	140	18	—	912	1 637
Ireland	517	625	959	73	—	55	227	251
Italy	1 108	2 214	1 565	250	20	60	662	331
Japan	6 928	8 397	13 966	1 357	2 322	906	8 750	7 173
Netherlands	630	894	946	98	150	—	645	284
New Zealand	1 107	1 375	560	—	247	65	443	448
Norway	530	832	699	77	100	65	367	268
Portugal	30	206	76	100	—	60	181	46
South Africa	92	374	548	168	69	101	434	298
Spain	444	747	1 470	251	135	—	702	518
Sweden	2 050	2 479	3 812	1 261	1 644	99	3 725	2 080
United Kingdom	1 408	1 201	1 398	333	390	—	1 886	634
United States	6 770	14 538	7 486	1 377	1 956	153	6 448	3 211
*Other**	722	1 431	2 294	406	86	100	923	1 321
Developing countries	**4 886**	**5 003**	**2 535**	**110**	**95**	**151**	**974**	**600**
Latin American countries	**3 658**	**2 480**	**71**	—	—	**21**	**21**	**21**
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Mexico	3 012	1 919	—	—	—	—	—	—
Panama	25	—	21	—	—	—	—	21
Venezuela	291	385	—	—	—	—	—	—
*Other***	—	50	50	—	—	21	21	—
Asian countries	**1 068**	**2 075**	**2 252**	**110**	**95**	**130**	**913**	**579**
Hong Kong	70	40	50	—	—	—	—	—
India	271	225	60	50	—	25	75	40
Indonesia	97	412	328	—	—	20	20	37
Korea	323	172	556	60	45	50	250	244
Malaysia	—	807	883	—	—	35	385	201
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	—	—	—	—
Thailand	93	63	265	—	50	—	183	17
Other	85	181	40	—	—	—	—	40
Middle Eastern and African countries	**160**	**448**	**212**	—	—	—	**40**	—
Egypt	—	75	—	—	—	—	40	—
Israel	117	200	135	—	—	—	—	—
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	—	—	—	—	—
Centrally planned countries	**75**	**65**	**75**	—	—	—	—	**25**
China	—	65	50	—	—	—	—	—
Hungary	20	—	—	—	—	—	—	—
*Other****	55	—	25	—	—	—	—	25
International organizations****	**7 163**	**9 912**	**13 410**	**623**	**1 107**	**229**	**4 359**	**4 883**
Total	**52 985**	**78 042**	**76 298**	**8 829**	**10 197**	**2 886**	**41 979**	**34 382**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States companies											
Eurodollar	n.a.	n.a.	11.16	11.13	11.29	11.41	11.59	11.43	11.77	12.28	**12.53**
Euromark	n.a.	n.a.	7.24	7.35	7.23	7.23	7.34	7.34	7.26	7.24	**7.29**
Swiss franc	n.a.	n.a.	5.61	5.78	5.75	5.73	5.73	5.58	5.61	5.63	**5.59**
European governments											
Eurodollar	n.a.	n.a.	12.53	12.40	12.44	12.52	12.65	12.33	12.58	12.96	**13.27**
Euromark	n.a.	n.a.	8.10	8.18	8.05	8.07	8.12	8.08	7.63	7.82	**7.88**
Swiss franc	n.a.	n.a.	5.36	5.61	5.52	5.52	5.59	5.43	5.33	5.34	**5.35**
European currency unit	n.a.	n.a.	n.a.	11.57	11.64	11.75	11.77	11.53	11.08	11.29	**11.44**

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	1982	1983	1984			Jan-May	
				Mar	Apr	May	1984	1983
Industrial countries	**86 022**	**42 571**	**38 742**	**33 022**	**4 330**	**2 861**	**52 613**	**15 358**
Australia	1 680	4 721	2 924	211	115	311	773	1 281
Belgium	360	1 172	883	—	—	—	—	83
Canada	4 112	3 838	967	—	137	380	1 152	200
Denmark	1 661	789	1 586	—	—	1 000	1 018	1 508
Finland	463	631	283	—	—	—	—	214
France	3 912	5 703	1 700	—	548	—	742	582
Greece	1 039	770	1 085	400	—	—	400	542
Ireland	1 361	401	764	—	—	—	—	541
Italy	6 030	3 757	2 980	283	19	56	980	1 324
Norway	713	1 769	1 236	24	—	—	24	286
Portugal	1 590	1 388	913	110	—	—	296	300
South Africa	287	1 479	752	—	50	100	250	575
Spain	3 242	1 849	3 041	235	245	192	1 072	1 753
Sweden	1 867	649	3 188	—	300	—	300	2 350
United Kingdom	747	1 635	1 328	107	450	278	1 595	348
United States	54 784	6 516	12 948	31 170	1 295	150	41 807	2 553
Yugoslavia	684	719	615	—	—	10	10	615
*Other**	1 490	4 785	1 549	482	1 171	384	2 194	303
Developing countries	**45 264**	**41 519**	**32 933**	**1 223**	**5 433**	**794**	**16 726**	**20 066**
Latin American countries	**30 152**	**26 719**	**15 406**	—	**3 845**	**86**	**10 631**	**11 711**
Argentina	2 534	1 565	1 750	—	—	—	—	—
Brazil	5 751	5 716	4 475	—	—	—	6 500	4 475
Chile	2 204	1 194	1 319	—	—	—	—	1 300
Colombia	1 030	741	549	—	—	—	170	100
Ecuador	934	815	431	—	—	—	—	—
Mexico	7 530	7 953	5 138	—	3 800	—	3 800	5 100
Peru	1 407	1 069	500	—	10	—	10	466
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	1 203	867	1 007	—	35	86	151	33
Asian countries	**10 288**	**8 403**	**8 824**	**989**	**903**	**295**	**4 079**	**5 180**
India	377	284	809	155	20	—	225	477
Indonesia	725	1 250	1 467	17	—	30	812	1 146
Korea	2 824	2 923	3 250	717	383	201	1 704	1 262
Malaysia	1 725	1 909	950	—	500	—	650	860
Pakistan	350	455	365	—	—	—	—	340
Philippines	1 257	635	815	—	—	—	—	685
Thailand	692	268	349	—	—	—	247	18
Other	2 338	679	819	100	—	64	441	392
Middle Eastern and African countries	**4 824**	**6 397**	**8 703**	**234**	**685**	**413**	**2 016**	**3 175**
Algeria	—	26	1 934	—	—	20	20	700
Egypt	63	353	335	—	—	—	—	71
Morocco	774	326	226	—	20	—	115	25
Nigeria	1 802	2 042	1 775	—	—	—	—	33
Turkey	100	2 042	1 106	—	150	50	550	366
United Arab Emirates	363	93	876	—	39	—	39	690
Other	1 722	3 280	2 451	234	476	343	1 292	1 290
Centrally planned countries	**1 791**	**765**	**1 212**	**410**	**350**	**109**	**1 723**	**233**
East Germany	470	8	392	50	—	—	50	—
Hungary	550	340	683	—	350	—	762	233
Soviet Union	25	374	68	—	—	—	365	—
*Other****	746	43	69	360	—	109	546	—
International organizations****	**302**	**160**	**1 321**	—	—	—	—	**21**
Total	**133 379**	**85 015**	**74 208**	**34 655**	**10 113**	**3 764**	**71 062**	**35 678**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977	1978	1979	1980	1981	1982	1983			
						Dec	Mar	Jun	Sep	Dec
Gross market size	740	949	1 233	1 524	1 861	2 057	2 074	2 045	2 115	2 153
Nonbanks	135	174	245	327	428	474	472	489	515	527
Official monetary institutions	100	115	145	150	132	90	90	84	90	89
Other banks	505	660	843	1 047	1 301	1 493	1 512	1 472	1 510	1 537
Eurodollars as % of gross	76	74	72	75	78	79	80	80	80	80

Central bank discount rates

at or near end of month

	1980	1981	1982	1983			1984	Current	
	Dec	Dec	Dec	Jun	Sep	Dec	Mar	Jun 1 1984	effective since
United States	13.00	12.00	8.50	8.50	8.50	8.50	8.50	9.00	Apr 9, 84
Canada	17.36	14.66	10.05	9.42	9.49	9.96	10.78	11.54	May 31, 84
Austria	6.75	6.75	4.75	3.75	3.75	3.75	4.25	4.25	Mar 14, 84
Belgium	12.00	15.00	11.50	9.00	9.00	10.00	11.00	11.00	Feb 16, 84
Denmark	11.00	11.00	10.00	7.50	7.50	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	9.25	8.50	8.50	9.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	7.50	5.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 73
Ireland	12.75	17.15	14.35	13.80	12.20	11.50	11.50	12.00	May, 84
Italy	16.50	19 00	18.00	17.00	17.00	17.00	16.00	16.00	Feb 15, 84
Netherlands	8.00	9.00	5.00	4.50	5.00	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	9.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	18.00	19.00	23.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	12.00	11.00	10.00	8.50	8.50	8.50	8.50	8.50	Apr 8, 83
Switzerland	3.00	6.00	4.50	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.00	14.37	10.00	9.56	9.50	9.00	8.50	9.00	May 10, 84
Japan	7.25	5.50	5.50	5.50	5.50	5.00	5.00	5.00	Oct 22, 83
New Zealand	14.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	7.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 12, 81
Argentina	87.01	98.50	128.54	161.87	183.75	183.75	134.13	167.37	Apr 1, 84
Korea	15.50	10.50	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	4.54	6.69	6.30	6.51	6.91	8.05	8.37	8.37	Mar, 84
Singapore	10.50	9.50	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	13.50	14.50	12.50	11.50	11.50	13.00	13.00	13.00	Dec 9, 83
Venezuela	13.00	14.00	13.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	18.90	12.37	8.95	9.45	9.48	9.34	9.47	9.56	9.59	9.91	10.29
Canada	15.61	14.53	10.63	9.25	9.35	9.43	8.78	9.60	9.63	9.50	9.72
Austria	11.50	7.50	6.00	5.00	5.62	5.62	5.75	5.87	5.87	6.00	6.38
Belgium	9.68	12.78	9.43	6.38	6.89	8.58	8.65	8.03	7.57	11.20	11.37
Finland	12.50	11.30	11.50	16.67	16.95	16.70	16.70	17.50	17.50	17.50	16.77
France	10.87	15.46	12.88	12.56	12.35	12.37	12.27	12.39	12.30	12.48	12.15
Germany	9.13	10.65	6.07	5.43	5.53	5.59	5.60	5.61	5.55	5.52	5.53
Ireland	13.31	16.88	14.54	12.62	11.00	12.25	12.19	12.12	11.25	10.75	12.12
Italy	17.50	20.63	19.00	17.69	17.75	17.79	17.88	17.91	17.67	17.25	17.25
Netherlands	8.37	10.67	5.31	5.68	5.82	5.70	5.84	5.77	6.12	6.13	5.79
Norway	11.00	18.60	11.00	12.30	13.50	13.00	13.00	12.80	11.45	13.00	13.00
Spain	16.74	18.73	20.30	19.85	20.27	18.56	16.41	10.16	18.14	14.75	11.54
Sweden	11.41	13.82	8.63	11.30	12.00	11.97	11.48	11.36	10.90	10.15	9.65
Switzerland	5.75	3.38	1.25	2.00	1.75	1.62	1.88	1.00	1.62	2.25	2.00
United Kingdom	13.00	9.13	6.70	7.30	7.81	7.06	7.77	7.31	7.12	7.08	6.25
Australia	9.51	12 84	11.04	9.80	9.03	9.31	4.56	7.09	9.05	11.21	13.45
Japan	9.49	6.70	6.92	6.53	6.43	5.99	6.47	6.05	6.04	6.05	5.88
South Africa	6.03	12.75	14.15	14.94	14.75	15.05	16.06	17.13	17.25	17.25	17.25
Argentina	70 84	84.93	155.32	175.30	178.30	178.30	178.30	138.61	128.53	128.52	161.88
Brazil	62.71	103.74	150.42	193.91	192.62	193.91	184.69	224.27	295.48	268.44	n.a.
Hong Kong	14.05	10.75	9.13	13.25	18.00	10.00	13.90	7.25	3.31	7.32	9.00
Korea	14.82	14.40	13.84	12.80	12.80	12.90	11.40	11.30	10.50	10.00	11.70
Philippines	15.70	14.70	16.12	16.54	24.23	18.96	31.18	25.52	21.76	9.99	n.a.
Singapore	10.23	3.96	11.45	6.51	7.02	7.23	7.05	6.92	6.83	7.64	8.13

Treasury bill rates

bond equivalent yields, at or near end of month

	1980	*1981*	*1982*	*1983*				*1984*			
	Dec	*Dec*	*Dec*	*Sep*	*Oct*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*
United States	14.87	11.90	8.15	9.05	8.92	9.05	9.28	9.20	9.48	10.09	10.02
Canada	17.01	14.41	9.80	9.24	9.24	9.38	9.71	9.73	9.79	10.53	10.59
Belgium	12.75	16.00	12.25	9.25	9.50	10.85	10.85	10.85	12.25	12.25	11.75
Ireland	12.84	17.35	14.70	12.12	11.96	11.66	11.63	11.80	12.16	12.59	12.35
Italy	16.87	21.36	19.11	17.18	17.08	17.05	16.95	15.74	15.81	15.61	15.45
Netherlands	8.00	9.75	5.62	5.87	5.62	5.62	5.63	5.75	6.12	5.88	5.38
Spain	n.a.	n.a.	15.28	14.60	14.52	14.53	14.46	13.61	13.66	13.20	12.64
Sweden	n.a.	n.a.	12.90	12.20	12.10	12.10	11.75	11.10	11.15	10.80	10.99
United Kingdom	13.45	15.31	9.90	9.21	8.89	9.08	9.08	9.08	9.08	8.59	8.59
Australia	12.17	13.27	9.39	10.34	9.38	9.32	8.54	9.43	10.35	13.11	11.89
Japan	5.93	5.42	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	11.25	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
South Africa	6.31	14.55	14.62	14.91	15.66	17.47	18.43	18.55	18.57	18.57	18.64
Brazil	65.87	92.62	115.40	163.92	179.15	179.15	179.15	179.15	179.15	179.15	n.a.
Mexico	27.73	33.33	57.44	56.17	54.50	53.85	53.78	53.02	n.a.	n.a.	n.a.
Philippines	12.70	13.22	14.54	14.83	15.13	15.63	15.99	16.27	17.01	17.25	n.a.
Singapore	6.77	3.03	2.74	2.85	2.63	2.62	2.59	2.67	2.65	2.66	2.87

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1980	*1981*	*1982*	*1983*				*1984*			
	Dec	*Dec*	*Dec*	*Sep*	*Oct*	*Nov*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*
United States	17.62	12.78	8.81	9.36	9.26	9.31	9.75	9.36	9.68	10.30	10.50
Canada	17.50	15.25	9.95	9.40	9.40	9.60	9.87	9.85	9.95	10.70	10.75
Belgium	13.10	16.00	12.35	9.25	9.50	10.75	11.00	11.00	12.50	12.35	11.90
France	11.56	15.25	12.75	12.50	12.19	12.31	12.19	12.25	12.54	12.56	12.31
Germany	10.20	10.50	6.20	5.80	6.15	6.25	6.30	6.10	5.85	5.80	5.70
Ireland	13.62	18.50	15.75	12.69	12.53	12.37	12.19	12.25	12.56	13.00	12.88
Italy	17.37	21.00	19.00	17.50	17.63	17.88	17.88	17.88	17.00	17.25	17.25
Netherlands	9.37	11.00	5.25	6.25	6.12	6.31	6.00	5.94	6.00	6.06	5.88
Portugal	11.00	13.80	15.04	22.30	23.00	24.17	24.11	24.06	23.79	23.99	24.04
Spain	17.40	15.52	16.55	22.06	22.19	20.29	18.48	17.30	18.30	16.42	15.07
Switzerland	7.50	10.12	3.87	4.25	4.25	4.25	3.87	3.62	3.75	3.94	3.88
United Kingdom	14.75	15.69	10.50	9.56	9.31	9.25	9.31	9.37	9.21	8.88	8.81
Australia	13.00	16.00	10.65	11.15	11.00	10.60	9.50	11.00	13.00	13.55	14.20
Japan	9.80	6.30	6.80	6.62	6.30	6.42	6.42	6.30	6.40	6.40	6.20
New Zealand	14.25	16.05	16.75	10.00	10.75	12.00	12.10	13.85	15.00	14.75	15.00
South Africa	7.12	15.47	15.26	16.45	16.94	18.19	19.12	19.07	19.01	18.30	19.07
Chile	26.79	34.54	71.44	25.34	25.34	25.34	22.42	19.56	14.03	11.35	18.16
Hong Kong	17.69	14.18	10.13	12.75	16.88	11.50	12.84	11.37	7.87	7.90	9.93
Indonesia	12.54	14.48	18.50	16.50	15.00	15.00	19.50	19.00	20.50	19.50	n.a.
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.41	9.50	8.50	8.10	8.20	8.65	9.80	9.47	8.51	8.95	9.10
Philippines	14.99	17.70	15.96	16.49	15.98	17.34	15.61	16.08	17.41	17.14	n.a.
Singapore	14.12	7.81	8.69	7.37	7.50	7.62	8.44	7.75	7.75	8.50	8.63
Taiwan	14.49	10.94	9.94	8.37	7.82	7.26	7.65	9.22	9.42	7.81	7.31
Thailand	16.55	14.29	12.25	14.00	14.25	14.50	16.00	16.50	17.00	15.50	13.50

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	16.25	12.62	8.25	9.20	9.30	9.30	9.70	9.40	9.77	10.35	10.50
Canada	17.00	15.20	9.85	9.35	9.35	9.50	9.82	9.80	9.90	10.65	10.70
Austria	11.25	9.63	6.25	6.06	6.31	6.37	6.50	6.50	6.25	6.44	6.56
Belgium	12.63	15.50	12.25	9.50	9.38	11.25	11.25	10.87	12.37	11.75	11.50
Denmark	10.00	10.00	9.00	6.50	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	11.25	9.16	8.24	7.80	7.70	7.70	7.66	7.72	7.76	7.76	7.76
Germany	8.00	9.50	6.00	5.63	5.60	5.80	5.90	5.65	5.40	5.35	5.35
Ireland	13.62	18.38	15.25	12.25	12.50	12.25	11.75	11.87	12.37	12.63	12.50
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	9.50	11.00	5.37	6.12	6.06	6.19	6.13	5.94	6.00	6.06	5.75
Norway	11.00	12.75	13.50	12.50	12.50	12.50	12.75	13.00	12.50	12.75	12.75
Portugal	12.00	14.00	15.00	21.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50
Spain	4.50	11.78	12.53	12.24	12.08	12.50	12.62	12.49	12.52	12.35	n.a.
Sweden	13.20	12.65	12.15	12.05	12.20	12.30	11.70	11.00	11.10	10.65	10.65
Switzerland	7.50	8.75	3.00	3.75	3.50	3.50	3.50	3.25	3.25	3.00	3.00
United Kingdom	14.87	15.69	10.31	9.50	9.25	9.22	9.31	9.37	9.25	8.88	8.91
Australia	12.71	15.65	10.20	10.56	10.96	10.35	10.40	11.25	12.20	13.13	13.36
Japan	9.00	6.50	7.00	6.88	6.45	6.60	6.50	6.52	6.63	6.50	6.35
New Zealand	13.50	15.50	16.50	9.00	9.50	10.75	11.50	13.75	10.00	10.00	14.75
South Africa	7.87	14.75	15.25	17.00	17.00	18.43	20.13	19.45	18.88	19.38	18.88
Argentina	72.00	86.76	103.42	176.41	176.41	176.41	176.41	139.91	121.66	121.66	158.17
Brazil	54.00	110.05	21.00	25.00	26.00	24.00	23.00	26.00	25.00	23.00	n.a.
Chile	39.45	36.87	57.72	25.19	25.19	25.19	22.28	19.74	12.95	11.09	18.16
Hong Kong	13.00	12.50	7.50	12.00	10.00	9.00	9.00	7.00	5.50	5.50	8.00
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	6.00	6.00	6.00	6.00
Malaysia	8.60	10.00	8.40	7.15	7.15	7.60	7.75	7.75	7.75	7.83	7.83
Mexico	26.15	31.82	52.54	56.38	55.20	54.84	54.70	53.86	n.a.	n.a.	n.a.
Philippines	14.00	13.35	14.10	13.47	13.62	14.93	14.96	14.33	15.57	15.37	n.a.
Singapore	13.19	7.50	8.25	6.81	7.07	7.19	7.44	7.13	7.19	7.69	8.01
Taiwan	10.25	10.75	7.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Thailand	9.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	16.00	14.75	15.50	12.50	12.00	12.00	12.00	11.50	11.50	11.00	11.50

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	11.46	14.33	10.61	11.65	11.85	11.89	12.00	11.72	12.13	12.49	12.79
Canada	12.69	15.27	11.69	11.76	11.73	11.80	12.02	11.92	12.40	13.06	13.31
Austria	9.62	10.37	8.81	8.32	8.16	8.06	8.02	7.96	7.88	7.88	7.94
Belgium	13.04	13.99	12.66	11.39	11.32	11.75	11.89	11.97	12.35	12.20	12.08
Denmark	19.98	20.91	20.14	14.19	13.95	14.22	12.96	13.39	14.02	14.78	14.27
Finland	10.42	10.98	10.64	10.97	11.19	11.16	11.16	11.17	10.62	11.19	10.80
France	14.31	16.44	15.40	14.03	14.15	14.12	13.96	13.76	13.78	14.05	13.81
Germany	9.19	9.71	7.90	8.43	8.30	8.34	8.38	8.33	8.13	8.18	8.18
Ireland	15.63	18.28	14.54	13.72	13.82	13.72	14.25	13.94	14.16	14.08	14.14
Italy	16.23	21.39	19.70	17.82	17.65	17.78	17.69	16.91	16.34	15.69	15.74
Netherlands	10.48	11.28	8.16	8.80	8.53	8.57	8.58	8.57	8.56	8.40	8.45
Norway	10.44	12.37	13.32	12.50	12.50	12.50	12.50	12.50	12.25	12.25	12.25
Portugal	17.19	17.39	16.63	21.97	22.05	22.80	22.11	21.19	21.57	n.a.	n.a.
Spain	16.15	16.20	15.92	18.76	19.47	19.50	18.71	18.33	18.68	18.74	n.a.
Sweden	12.61	12.80	13.01	12.20	12.24	13.05	12.30	11.70	11.50	11.50	11.65
Switzerland	4.63	5.40	4.22	4.71	4.61	4.62	4.52	4.31	4.38	4.55	4.47
United Kingdom	13.05	15.02	10.62	10.15	10.13	9.93	9.94	9.97	10.04	9.89	10.16
Australia	13.00	15.00	13.00	14.40	13.70	13.40	13.65	13.70	14.05	14.00	14.00
Japan	9.04	8.32	7.76	7.58	7.51	7.39	7.19	7.20	7.06	6.74	6.68
New Zealand	12.99	12.55	12.84	10.13	10.58	10.61	10.50	10.84	11.33	n.a.	n.a.
South Africa	11.81	13.33	11.31	13.14	13.29	13.60	13.70	14.18	13.52	14.20	14.63
Philippines	13.20	13.01	13.64	13.95	13.28	13.76	14.47	14.42	14.61	13.67	n.a.
Venezuela	7.39	12.50	15.00	14.00	14.00	14.00	13.50	13.00	13.00	13.00	13.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep[1]	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	21.50	15.75	11.50	11.00	11.00	11.00	11.00	11.00	11.00	11.50	12.00
Canada	18.25	16.50	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.50	11.50
Austria	12.50	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	15.75	18.00	15.50	12.50	12.50	13.25	13.75	13.75	14.75	14.75	14.75
Denmark	13.75	15.00	14.00	10.50	10.50	10.00	10.00	10.00	10.00	10.00	10.00
Finland	9.83	9.84	8.95	10.16	10.14	10.15	10.18	10.30	10.36	10.38	n.a.
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	14.50	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
Italy	20.50	22.50	20.75	18.75	18.75	18.75	18.75	18.50	18.50	17.50	17.50
Netherlands	10.75	12.00	6.25	7.00	6.75	6.50	7.00	6.75	6.75	6.75	6.50
Norway	12.50	13.75	14.50	13.50	13.25	13.75	13.50	13.63	13.75	13.30	13.30
Portugal	18.75	20.50	23.50	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Spain	18.50	17.04	19.00	24.09	23.70	22.87	20.85	20.01	20.55	19.44	n.a.
Sweden	14.00	15.00	15.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
Switzerland	5.75	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.00	14.50	10.00	9.50	9.00	9.00	9.00	9.00	9.00	8.50	8.50
Australia	13.50	15.75	15.00	14.00	13.25	13.25	12.75	11.50	13.00	14.00	15.50
Japan	8.16	6.95	6.28	6.23	6.23	6.08	5.89	5.81	5.77	5.80	5.80
New Zealand	13.00	13.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
South Africa	9.50	17.00	18.00	18.00	18.00	19.00	20.00	20.00	20.00	20.75	20.75
Argentina	77.00	92.60	109.50	188.58	188.58	188.58	188.58	152.08	133.83	133.83	170.33
Brazil	120.10	152.40	23.81	24.00	24.00	24.00	24.00	24.00	24.00	24.00	n.a.
Chile	49.55	61.43	85.19	39.83	40.60	40.40	35.11	31.43	22.75	21.26	34.35
Hong Kong	17.00	16.00	10.50	16.00	15.00	13.50	13.50	11.50	10.00	10.00	12.00
Indonesia	21.00	19.25	22.00	19.50	19.50	19.50	19.75	20.00	21.25	21.50	21.50
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	8.50	12.00	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Mexico	24.25	31.81	46.12	57.78	57.14	56.82	56.44	55.95	55.16	53.11	51.10
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	22.00	n.a.
Singapore	13.60	11.83	9.33	8.95	8.93	8.93	8.98	9.05	9.03	9.20	9.63
Taiwan	16.20	15.25	10.75	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25
Thailand	16.50	17.00	16.00	15.50	15.50	15.50	16.00	16.00	16.50	17.00	17.00
Venezuela	15.00	15.50	17.00	16.00	16.00	16.00	16.00	16.00	14.50	14.50	15.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	13.00	15.50	11.75	12.25	12.63	12.38	12.63	12.38	12.88	13.25	13.88
Canada	13.53	16.18	12.74	12.54	12.57	12.58	12.89	12.78	13.27	13.84	14.13
France	15.23	17.33	15.91	14.36	14.62	14.30	14.06	13.96	14.28	14.37	14.23
Germany	9.50	10.50	8.20	8.30	8.30	8.30	8.30	8.30	8.00	8.00	8.00
Netherlands	10.71	11.03	7.80	8.68	8.39	8.53	8.51	8.44	8.39	8.26	8.28
Norway	11.24	13.36	14.13	13.25	13.25	13.25	13.25	13.25	13.00	13.00	13.00
Spain	14.82	14.76	17.10	20.05	20.37	20.03	19.84	20.19	20.69	21.90	22.54
Sweden	11.95	12.94	13.37	12.99	12.40	12.51	12.21	12.15	11.96	11.84	12.04
Switzerland	n.a.	n.a.	4.87	5.07	4.94	4.94	4.94	4.93	4.91	4.85	4.91
United Kingdom	14.21	16.65	12.34	11.89	11.84	11.51	11.57	11.52	11.61	11.29	11.48
Australia	14.25	16.50	15.00	15.00	15.00	15.00	13.50	14.00	14.50	14.50	n.a.
Japan	8.60	7.70	7.55	7.30	7.29	7.27	7.09	7.05	7.04	6.92	6.89
Korea	28.20	26.90	15.90	14.20	14.10	14.20	14.20	14.30	14.00	13.60	13.00
Venezuela	16.15	17.00	18.00	18.00	18.00	18.00	18.00	18.00	17.50	17.50	17.50

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World Financial Markets

Morgan Guaranty Trust Company of New York

July 1984

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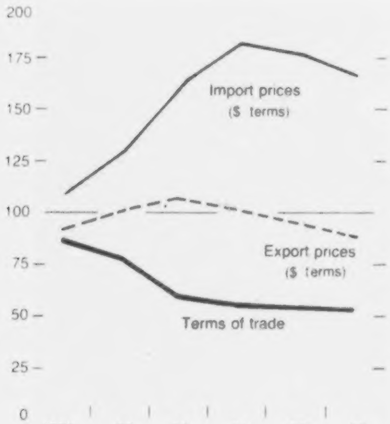
Chart 1

Terms of trade

indices, 1977 = 100



Stabilization policies in Brazil

Brazil has been making a determined effort, especially since early 1983, to improve its balance of payments and lower domestic inflation. The government has made major changes in foreign-sector, wage, fiscal, and monetary policies to pursue these twin purposes. Excellent results already have been achieved in the external area: last year, Brazil registered an unprecedented merchandise trade surplus of $6½ billion, and in the first six months of 1984 an additional surplus of $6 billion has been posted. The trade account improvement, together with additional credit from commercial banks and other sources of external finance, has enabled the central bank to clear up all the arrears accumulated in 1983 as well as to begin to rebuild its foreign exchange reserves. Moreover, because the improving trade performance increasingly derives from rapid export growth at an annual rate of over 20% rather than compression of imports, Brazil is achieving a decline in its high debt to exports ratio – a key indicator of creditworthiness. It is further benefiting from a recovery of output and incomes in export-oriented agriculture, mining, and industry. Real GDP, which fell by a cumulative 4% in 1981-83 and almost 11% in per capita terms, may well record a small gain this year.

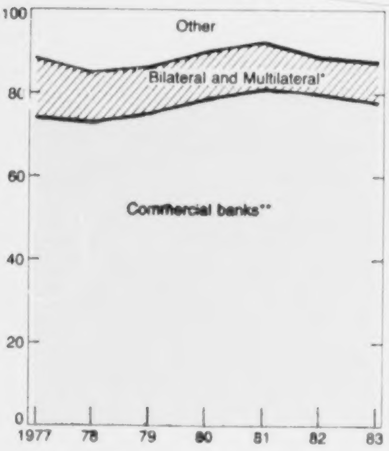
In the domestic area, in contrast, the results so far are mixed if not disappointing. Wage policy has undergone a significant change for the better, and now that real wages have declined, the rise in labor costs is no longer a contributing factor to inflation. The cash or operational deficit of the public sector has been all but eliminated by holding down current and investment outlays. Interest rates are being set more realistically and credit subsidies have been limited. Nonetheless, the overall fiscal deficit remains quite large (about 17% of GDP) because of the growing cost of servicing the indexed domestic debt of the public sector. The monetary aggregates have accelerated. The rate of inflation has not come down: the widely used "general" price index has risen an average of close to 10% per month since the beginning of the year for a cumulative total of 76%, versus 67% in January-June of 1983 and 47% in the first half of 1982.

To sustain the modest economic recovery now in place, permit a deceleration of inflation, and maintain the balance of payments gains, Brazil should further reduce the fiscal imbalance. In view of the heavy bur-

Chart 2

Total external debt by creditor

end-December, as percent of total



* Excluding the IMF

**Including Brazilian banks abroad

den imposed by the outstanding stock of indexed obligations, there is no escaping from the need to generate a strong surplus in the operational accounts of the public sector. To this end, clear investment priorities must be established and reliance on loans to finance projects must be reduced; remaining costly subsidies to consumption and production must be phased out; and the financial problems of the ailing social security and savings and loan systems must be tackled. A fiscal deficit reduction of at least 2%-3% of GDP per annum would enable the monetary authorities gradually to regain control over the money supply, setting the basis for a lower rate of inflation. Moreover, by lessening the overwhelming absorption of available domestic and foreign savings by the public sector, such a deficit reduction would make room for growth of private-sector investment. It also would minimize dependence on external borrowing and permit the restoration of normal credit market access and creditworthiness so important to assure a high rate of economic growth in the long run.

Background

Throughout the 1970s and until 1981, Brazil followed a development strategy that maximized public and private investment, but with little regard for its economic and financial costs. Massive infrastructure, import-substitution, and natural resource projects were carried out by a swelling number of large private and government-owned corporations. The investments were underwritten by a complex web of subsidized bank credit lines, tax concessions, import tariffs, and guarantees on domestic and foreign borrowing. The enormous costs were borne through higher taxes, compulsory savings, and heavy domestic and external borrowing. Gradually, direct and indirect involvement in the development process compromised the government's ability to manage aggregate demand in a noninflationary manner, particularly in the aftermath of adverse external shocks.

Brazil suffered from three such exogenous shocks during the 1979-82 period. The first was a steep, 45%, decline in the terms of foreign trade relative to 1977 (see Chart 1). This was attributable mainly to the escalation in petroleum import prices that started in 1979. In response, the country embarked on a large-scale petroleum exploration, substitution, and conservation program. Petrobras, a state-owned enterprise with a virtual monopoly on oil production, imports, and refining, stepped up its drilling activity and found substantial quantities of hydrocarbons. The increased reserves allowed a major expansion of petroleum production, from 170 thousand barrels per day (bpd) in 1979 to 270 thousand bpd in 1982 and a current rate of 500 thousand bpd.

The substitution effort relied on the exploitation of alternative energy sources, particularly alcohol, coal, natural gas, and hydroelectric power. The alcohol program, for example, subsidized the planting of sugarcane and its conversion to a fuel suitable for automobiles. It yielded the equivalent of about 130 thousand bpd of petroleum last year, versus about 10 thousand bpd when started in 1976. Meanwhile, oil consumption, discouraged through higher prices, fell from over 1.1 million bpd in 1979 to 960 thousand bpd in 1983 (see Table 1). Brazilian petroleum consumption last year was 18% lower per unit of output than in 1979, while oil self-sufficiency has risen from 15% to 50% as of mid-1984. The energy program has thus made possible a dramatic cut in net oil imports, from 1 million bpd in 1979 to

Table 1

Petroleum demand and supply

thousands of barrels per day

	Consumption	*Production*	*Net imports*
1978	945	166	871
1979	1,134	171	994
1980	1,125	187	877
1981	1,030	220	773
1982	1,020	268	732
1983	961	339	638

640 thousand bpd last year and an estimated 480 thousand bpd in 1984.

Despite reduced import demand, the cumulative cost to Brazil of the increase in world oil prices over the four years from 1979 to 1982 was $19 billion, or the equivalent of a year's exports, as measured by the difference between actual and pre-1979 petroleum prices times the net volume imported.

The second shock was the sharp rise in international interest rates. LIBOR moved up from 6½% in 1977 to a peak of about 19% in early 1980 and again in mid-1981, a rise that was all the more burdensome as the terms of trade deteriorated. Three complementary courses of action could have been pursued. New borrowings could have been minimized through restrictive demand management policies. Brazil did attempt on two occasions to implement economic adjustment programs without the supervision and financial support of the IMF. One try, in late 1979-early 1980, soon ended in failure. Another in 1981 was a modest success, mainly in cutting the value of nonpetroleum imports by 15%. However, neither program much reduced Brazil's foreign borrowing.

Sources of finance charging fixed or noncommercial interest rates could have been tapped more intensively. Although Brazil's indebtedness to official bilateral and multilateral agencies rose from $5.3 billion at the end of 1977 to $7½ billion by the end of 1981, it declined from 14% to 10% of total foreign debt. The funds obtained from these sources were much less in absolute and relative terms than, for example, the amounts secured by Korea during the same period. And whereas Korea also obtained IMF financial support, Brazil chose otherwise. Accordingly, its reliance on commercial bank debt at floating interest rates actually increased (see Chart 2).

A greater portion of new loans could have been contracted in currencies other than the dollar and at lower interest rates. However, data on the currency composition of Brazil's medium- and long-term foreign debt reveal no successful diversification away from the over-80% concentration in dollar-denominated loans between end 1977 and end 1981. A slight increase in the yen portion, from 4% to 6% of total loans, came at the expense of other nondollar indebtedness. All in all, the cumulative cost of the high international interest rates over the 1978-82 period was $10 billion, computed as the difference between actual and pre-1978 effective interest rates times the average annual external debt.

The third shock was the sudden drop in export volume in 1982. This stemmed mainly from the global recession, especially the import reductions in Brazil's Latin American and Eastern European markets and in the OPEC countries (see Table 2). The 1982 drop of 9% contrasts sharply with the 16% annual average export volume growth posted by Brazil during 1977-81 — especially the 22% annual average rate recorded in 1980-81. The $3.4 billion decline in non-oil exports was countered with a $1.9 billion cut in non-oil imports, thanks mainly to a tightening of import controls, and a $1.1 billion reduction in net petroleum imports (see Table 3).

These three adverse exogenous events severely disrupted the Brazilian economy — far more than had the 1973 oil shock. In the early 1970s, the country's GDP expanded in real terms by an annual average of 11½% and inflation (measured by the GDP deflator) ran at less than 20% per year. Following the first oil shock, the rate of economic growth fell to an annual average of 7% during 1974-78 and inflation ratcheted up to a remarkably constant average of about 40% per year.

Table 2

Destination of exports

billions of dollars

	1981	*1982*	*1983*
Total	23.29	20.18	21.90
*Latin America**	3.73	2.32	1.69
Eastern Europe	1.70	1.19	1.44
OPEC	2.44	1.89	2.00
United States	4.11	4.03	5.06
Europe	6.47	5.94	6.26
Japan	1.22	1.29	1.43
Canada	0.29	0.23	0.31
Other	3.33	3.29	3.71

*Venezuela and Ecuador included in OPEC.

Table 3

Foreign trade

billions of dollars

	Non-oil exports	*Non-oil imports*	*Net oil imports*	*Trade balance*
1977	12.5	—8.3	—3.6	0.6
1978	12.4	—9.5	—3.9	—1.0
1979	14.9	—11.6	—6.1	—2.8
1980	19.6	—13.0	—9.4	—2.8
1981	22.0	—11.1	—9.7	1.2
1982	18.6	—9.2	—8.6	0.8
1983	20.5	—7.2	—6.8	6.5

Table 4

Macroeconomic policy indicators

percent change from previous year-end, except where noted

	1980	*1981*	*1982*
Fiscal policy			
*Public-sector borrowing requirements**	83	261	150
% of GDP	8	13	17
Monetary policy			
M1	70	75	70
M3	72	115	104
Wage policy			
Minimum wages	97	106	98
Industrial wages (Sao Paulo)	110	96	108
*General prices***	110	95	100

*Percent change from previous year's total.

**Composite of consumer prices (with weight of 0.3) and construction costs (0.1) in Rio de Janeiro, and wholesale prices (0.6).

Then, in the wake of the last set of shocks, economic growth came to an abrupt halt and inflation accelerated to a new plateau of 100% during 1980-82.

The faltering growth performance and the protracted upsurge of inflation reflected the gradualist approach to adjustment that Brazil followed until 1983. There should have been prompt and forceful changes in relative prices (of energy, borrowed capital, and tradable goods) and also containment of aggregate demand through restrictive fiscal, monetary, and wage policies. Instead, changes in relative prices were delayed and insufficient, and attempts at stabilization were halfhearted. Brazil's approach stood in marked contrast with the far more successful but radical course followed by many developing countries in Asia facing similar circumstances.

Thus, while higher world oil prices eventually were passed on to Brazilian consumers, enormous sums were spent to develop and provide low-cost energy substitutes for imported petroleum. Some sectors of the economy were exposed to rising international interest rates, but credit subsidies were increased vastly for private-sector borrowers in such priority areas as agriculture, and the cost of credit was not allowed to interfere with the grandiose investment plans of the public sector. While export competitiveness was sustained and at times enhanced through currency depreciations and subsidies of all kinds, the high import barriers that had been erected for the sake of industrialization thwarted the growth of low-cost export industries.

At the same time demand management policies generally were unsupportive of noninflationary adjustment. Current and investment expenditures by the central, state, and municipal governments, as well as by myriad public enterprises, consistently outran tax and other revenues. On a consolidated basis, the annual borrowing requirements of the public sector rose from the equivalent of about 8% of GDP in 1979-80 to 13% of GDP in 1981 and 16½% of GDP in 1982 (see Table 4).

Formal targets for the monetary base and M1, established at the beginning of each year, were exceeded routinely due to lack of control over open-ended credit and consumer subsidies, large-scale foreign borrowing by the public and private sectors, and other expansionary measures. The domestic liabilities of the monetary authorities — defined broadly to incorporate the monetary base, treasury debt held by the public, and foreign-currency deposits at the central bank — jumped 60% in 1980, 150% in 1981, and over 90% in 1982. Broad money supply (M3) increased 72% in 1980, 115% in 1981, and 104% in 1982.

Beginning in 1979, policy mandated increases in wages that at a minimum were to be in line with actual inflation; it also granted lower-paid workers (those earning up to three times the minimum wage, constituting two-thirds of workers covered by legislation) an automatic, 10% annual raise above inflation; and it encouraged firms to award productivity raises of 3%-5% per year above the obligatory adjustments. Wages actually paid by industry in Greater Sao Paulo showed a cumulative 26% real increase during 1979-82.

The adjustment effort

The need for resolute economic adjustment became evident to the Brazilian authorities around the middle of 1982, when it proved increasingly difficult to finance the deficit in the current account of the balance of payments. The deficit, which had averaged nearly $12 billion per year during 1979-81, increased to an an-

Table 5

Current account

billions of dollars

		1983		*1984*		
	1982	*As projected in Jan 1983*	*Actual*	*As projected in Jan 1983*	*As projected in Jan 1984*	*Q1 Actual**
Non-oil exports	18.6	20.2	20.5	23.7	22.7	20.9
Non-oil imports	—9.2	—7.2	—7.2	—9.8	—8.8	—6.0
Net oil imports	—8.6	—7.0	—6.8	—5.9	—4.8	—5.0
Trade balance	0.8	6.0	6.5	8.0	9.1	9.9
Net interest payments	—11.4	—9.5	—9.6	—9.0	—10.6	—8.5
Net other services	—4.2	—3.5	—3.1	—4.0	—3.8	—2.6
*Current account***	—14.8	—7.0	—6.2	—5.0	—5.3	—1.2

*Annualized, not seasonally adjusted.

**Excluding a reinvested earnings debit of $1.6 billion in 1982 and $0.7 billion in 1983.

nualized rate of $15½ billion in the first half of 1982. In the first six months of that year, borrowings from commercial banks in the BIS-reporting area increased by $2.8 billion, sufficient to cover only 35% of the current account deficit. Moreover, a disproportionate share (three-quarters) of this amount was provided by U.S. banks, though they held only one-third of BIS-area bank claims on Brazilian residents. Access to international capital markets diminished further during the third quarter of 1982, in the aftermath of debt-servicing difficulties in Argentina and Mexico, even as the current account deficit was peaking at an annualized rate of $18 billion. The ensuing loss of foreign currency reserves seriously eroded Brazil's liquidity position. Emergency "bridge" loans from commercial banks, the U.S. Treasury, and the BIS had to be obtained in the final months of the year to keep payments from falling into arrears. Nevertheless, save for tighter import controls, major policy initiatives were deferred so as to avoid upsetting congressional, gubernatorial, and municipal elections held in November of 1982.

In January 1983 the government reached agreement with the IMF on a three-year economic program to be supported by an SDR 4.2 billion Extended Facility. The program's balance of payments objectives seemed ambitious — unprecedentedly large trade surpluses ($6 billion in 1983 and $8 billion in 1984, following a surplus of only $800 million in 1982), and correspondingly reduced current account deficits (see Table 5). The current account improvement targeted for 1983 was the equivalent of 2.3% of GDP, with an additional 0.7% of GDP to be achieved in 1984. This was to be made possible through minidevaluations running at least 1% per month ahead of domestic inflation, to enhance export competitiveness; further progress in energy self-sufficiency and conservation, leading to lower net petroleum imports; and overall demand containment projected to cause a 3½% fall in real GDP in 1983, with a consequent drop in non-oil imports.

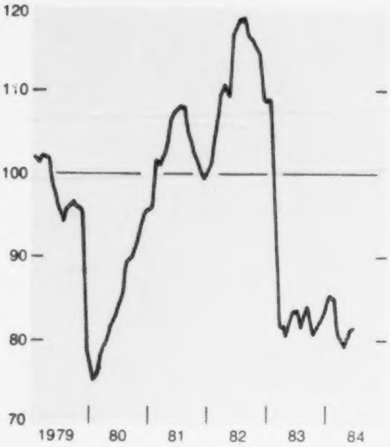
Domestic stabilization objectives included reducing the public-sector deficit by the equivalent of 6% of GDP in 1983 and a further 3% of GDP in 1984, from a then-estimated deficit of 14% of GDP in 1982; cutting back to 60% the growth of both the monetary base and M1, from 87% and 70%, respectively, in 1982; and attaining wage settlements "designed to increase employment," which in fact meant a new wage policy that would no longer grant raises in excess of inflation. These policies were intended to lower inflation from 100% in 1982 to 70% in 1983 and 40% in 1984.

Within a few weeks, however, it became apparent that the anticipated trade account improvement would not materialize without a swift change in incentives to export. Exports in January-February 1983 were running about 5% below, rather than well above, the first two months of 1982. Speculation against the cruzeiro was evident in that export deliveries slowed and the surrender of export receipts was delayed. Con-

Chart 3

Real effective exchange rate

index, 1980-82 = 100



sequently, the authorities decided in late February to devalue the currency by 30% against the dollar and to maintain the beneficial effect of this adjustment through further depreciation. Since late 1983, the cruzeiro has, in fact, been devalued strictly in line with domestic inflation. This single measure, which enhanced Brazilian competitiveness by 23% on a real effective basis during 1983 (see Chart 3), became the key to the fulfillment of the trade surplus objective. Alone among major Latin American countries, Brazil's non-oil exports increased 10% during 1983, or slightly more than expected, based on export gains in soybeans, steel, footwear, and chemicals. Sales to the United States rose 25%, offsetting market losses in Latin America. With real GDP declining 3.2%, very close to the projected 3½%, non-oil imports fell 21%, precisely as much as planned. Net petroleum imports dropped somewhat more than originally anticipated. The current account deficit improved by $8.6 billion, or about 4% of GDP, versus the intended improvement of less than 2½% of GDP.

The 1984 stage of the economic adjustment program calls for an even better external performance, with the initial trade surplus objective of $8 billion revised up to $9.1 billion at the beginning of this year. As of mid-1984, the issue no longer is whether the intended surplus will be attained, but by how much it will be exceeded — anywhere from $1 billion to $2 billion, depending mainly on the speed with which non-oil imports recover during the second half of the year. In the first five months, non-oil exports were up 23%, versus a projected 11% increase for the year as a whole. Non-oil imports were down 12½% instead of rising 22%. The United States continues to make a crucial contribution to Brazilian trade performance. Its imports from Brazil rose 54% in January-May 1984 from a year earlier. Brazil's trade surplus with the United States accounts for nearly half of its overall trade surplus. This is despite some protectionist moves against Brazilian steel. The deficit on current account should be on target at $5 billion or less even with the recent escalation in international interest rates.

The improved export performance, aside from generating welcome foreign exchange, is bringing benefits to Brazilian agriculture and industry. After several years of lackluster agricultural growth, farmers are planting almost 11% more land than in 1983 and the 1984 grain harvest is expected to be 14% higher than last year's. National industrial production, which fell a total of 15% during 1981-83, rose 4% in the first four months of 1984 relative to January-April of 1983. This was mainly because of increased shipments abroad by the steel, chemical, and paper industries, as well as higher domestic sales of tractors, fertilizers, and other inputs needed by farmers. In the industrial hub of Sao Paulo, where production for export accounted for 28% of total output in the first quarter of this year versus a mere 13% in 1979, the massive loss of jobs that took place in 1981-83 has ended and there are signs that employment is beginning to rise.

The adjustment of Brazil's internal performance, in contrast to its external accounts, has proceeded very slowly. Among the major tools of economic policy, only wage policy has ceased to feed inflation. The applicable legislation was altered in various stages during 1983 to permit the partial deindexation of wages. The final compromise bill, approved in October, mandated that workers earning less than three times the minimum wage receive raises no higher than the increased cost of living, and that better-paid workers be awarded raises well below the

Table 6

Public-sector borrowing requirements

percent of GDP

	1981	*1982*	*1983*
Total	13.1	16.5	19.5
*Operational**	6.2	6.9	2.7
Monetary correction	6.9	9.6	16.8
Central administration	3.9	5.6	4.7
*Operational**	1.6	2.1	—0.1
Monetary correction	2.3	3.5	4.8
State enterprises	5.8	7.1	9.7
*Operational**	3.1	3.6	2.5
Monetary correction	2.7	3.5	7.2
State and municipalities	3.4	4.2	5.7
*Operational**	1.3	1.3	0.8
Monetary correction	2.1	2.9	4.9
Other institutions	0.0	—0.4	—0.6
*Operational**	0.2	—0.1	—0.5
Monetary correction	—0.2	—0.3	—0.1

*Difference between current revenues and current and investment expenditures (including interest payments above monetary correction).

rate of inflation. The change in wage policy has been instrumental in reducing current government spending: the public-sector wage bill fell by about 15% in real terms last year and perhaps an extra 10% in the first half of 1984. This has minimized the need for layoffs. Also, it has helped the cost competitiveness of companies in the private sector, enabling them to keep workers rather than fire them as they had done in 1981-82. Wages paid by industry in Greater Sao Paulo lagged the local cost of living by 8% in 1983 and may have fallen behind by an additional 15% since December.

In the fiscal area, the expected reduction in the overall deficit has not materialized (see Table 6). The operational portion of the deficit has been cut from the equivalent of 7% of GDP in 1982 to almost zero in the first half of 1984. However, this has been more than offset by a jump in the deficit due to the indexation of public-sector debt. The indexation cost rose by over 7% of GDP last year and is not expected to fall during 1984.

The major contributors to lower government expenditures in real terms are the fall in the public-sector wage bill and significant reductions in investment outlays. State-owned enterprises were required to cut back investments by about 30% in real terms in 1983. Another large contraction, of perhaps 20%, is in store for 1984. Capital expenditures at all levels of government in such areas as transportation and nuclear energy have been restrained the most severely, while programs in petroleum exploration and electric power have been spared.

The raising of revenues through taxation and price increases on government-supplied goods and services has been much more difficult than anticipated. The effects of recession and wage declines on taxable corporate and personal incomes, and of high inflation on evasion and collection lags, have thwarted all attempts to increase treasury tax revenues in real terms. Thus, despite improvements in tax administration and the imposition of additional income and other taxes (particularly on capital gains and financial transactions), treasury revenues fell 4% in real terms during 1983 and 7% in the first five months of 1984 relative to the same period last year. Meanwhile, administered price increases on fuel, steel, electricity, and other goods or services provided by the public sector were subject to periodic delay in 1983, although adjustment lags have been shortened so far this year.

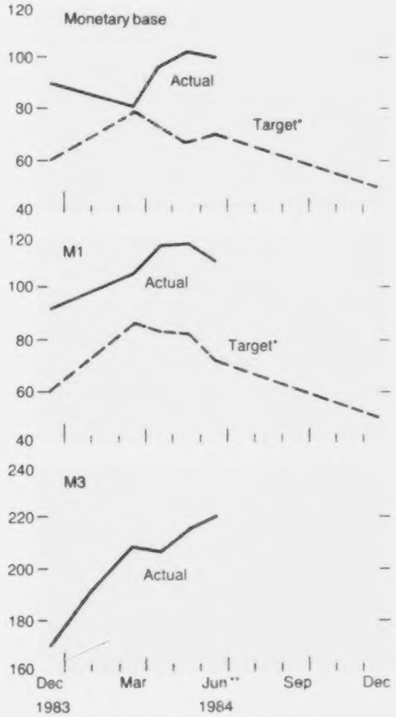
Reduction of subsidies and other transfer payments have fallen far short of their potential contribution to the fiscal adjustment effort, especially last year. Until mid-1983, after more than three years of triple-digit inflation, subsidized loans to agriculture and export industries still carried fixed interest rates of 45% and 40%, respectively. Although these rates were increased last year, such loans have been fully adjusted for inflation only since the beginning of 1984, and they still are subsidized insofar as the real rate of interest charged is 3% per annum versus market rates in excess of 20%. Other subsidies to exports remain, such as income tax exemptions, excise tax credits, and accelerated depreciation allowances. Fuel price subsidies were not abolished until mid-1983, instead of at the beginning of that year. A wheat-import subsidy, of more than half the wholesale price, was to have been eliminated by June 1984 but, in fact, was not.

The biggest, and so far insurmountable obstacle to reducing the overall fiscal deficit is the servicing of the enormous cruzeiro-denominated debt of the Brazilian public sector — almost all of it indexed. This debt is the legacy of many years of

Chart 4

Monetary aggregates

percent change from previous twelve months



* As set at the beginning of each year.

** May and June estimated.

deficit spending by all levels of government and by public companies and agencies. Their spending was financed mostly through loans from the domestic banking system and the issuance of debt to the nonbank public. These stocks of domestic debt are adjusted for inflation, through the application of a monetary correction index, or in certain cases for currency devaluation. Consequently, the authorities cannot control the cost implicit in the debt's automatic revaluation — the more so as the monetary correction index now reflects inflation accurately. The budgetary cost of indexation can be reduced in real terms only if the public sector runs an operating surplus and uses it to retire debt. Until now, however, fiscal expenditures have outstripped revenues.

Last year, the overall deficit increased by 3% of GDP, from 16½% of GDP in 1982 to 19½%, instead of falling by the equivalent of 6% of GDP as originally planned. In 1984, the deficit may be cut to around 16% of GDP — marginally below the 1982 figure but far short of the 9% of GDP reduction that was hoped for at the beginning of last year. Thus, the fiscal imbalance and its financing remain the driving force of high inflation in Brazil.

The very slow fiscal progress inevitably has weakened the ability of the monetary authorities (the Banco Central do Brasil and the Banco do Brasil) to carry out a restrictive credit policy. Besides having to fund and even administer many programs entailing a subsidy, the authorities have had to lend financial support to an ailing social security system and cover the unpaid foreign obligations of some state enterprises.

A further impediment to monetary restraint is the existence of over $12 billion in dollar-indexed deposits at the central bank — about twice the size of the monetary base. These deposits were opened several years ago to capture the unutilized portion of the foreign borrowings of state-owned and private companies, including multinationals. A rise in cruzeiro interest rates would encourage companies to draw on these so-called Resolution 432 deposits and to liquidate local-currency debts. The resulting increase in the monetary base, much the same as a capital inflow, could substantially offset the central bank's restrictive stance.

The failure of monetary restraint is evident on several counts: the persistent acceleration in growth of the monetary aggregates; the behavior of inflation itself; and interest rates that are not convincingly positive in real terms. The monetary base and M1, targeted at 60%, increased by about 90% in 1983, while M3 rose 170%. By last month, the monetary base and M1 were up 100% and 112%, respectively, from a year earlier rather than the intended 70%. And the broader monetary aggregates increased by over 200% (see Chart 4).

The rate of inflation, which initially was meant to fall well below 100%, actually jumped to 211% in 1983 as measured by the general price index. It has remained above 225% in the past several months, with no evident downward trend.

As for interest rates, on the surface they now appear strongly positive in real terms, at least since late 1983 when monetary correction was reformed to reflect inflation fully. Commercial bank CD rates are on the order of 20% per annum in addition to monetary correction, and lending rates are higher still. However, given past practices, lenders and borrowers can hardly be confident that monetary correction will continue to compensate for actual inflation, let alone in after-tax terms. Thus, it is by no means clear that interest rate policies are signaling monetary restraint. Even so, the central bank displays concern that truly high real interest rates would crowd out the private sector's credit needs and plunge the economy into severe recession. Moreover, a sharp rise in interest rates could endanger the financial system: recession and the fall in real wages already have led to a growing wave of payments arrears on the part of mortgage borrowers and home builders.

Outlook

Barring any major policy initiatives during the months to come, the new Brazilian government that takes office on March 15, 1985 following selection of a new president is likely to inherit an economy characterized by very high inflation, low economic growth, and an improved current account and international reserves situation. The new administration probably will seek to change this economic configuration. There certainly will be pressure from all groups in society for an early return to higher rates of economic growth. The resumption of growth, however, requires stepped-up saving.

Significant reliance on foreign finance at this stage is neither possible nor desirable. The indebtedness built up over the years is already heavy. Brazil's total foreign debt is about to reach $100 billion, three-and-a-half times the value of annual exports of goods and services. Interest payments of about $12½ billion this year amount to more than 40% of export earnings. There is an urgent need to reduce the relative size of this debt burden, both by slowing the growth of debt and further boosting the growth of exports — objectives consistent with prevailing conditions in international capital markets, which require countries to prove their ability to generate foreign exchange and keep debt growth to a minimum.

If the Brazilian economy is to grow in real terms by 4%-6% per annum on a sustainable basis while avoiding balance of payments difficulties, the incoming administration must tackle above all the fiscal problem. The public sector's absorption of nearly all private and foreign savings has to be diminished steadily by at least 2%-3% of GDP per year so that resources can be released to underwrite economic expansion. This release of resources does not guarantee that economic expansion will take place unless the private sector is willing to put those resources to work. In the case of Brazil, however, the private sector has demonstrated impressive dynamism even under the difficult circumstances of the past few years. Thus, there is ample reason to expect that it can move ahead given new resources and correct market signals.

The most meaningful fiscal reform can be made in the screening and financing of public-sector investment activities. In Brazil in the 1970s public enterprises were created for specific projects — often, some of the most ambitious and expensive in the world, such as hydroelectric dams, nuclear plants, subway systems, rail lines, and mining and industrial ventures. These projects, usually requiring five or more years to carry out, were justified on the basis of extrapolations of future demand for energy, transportation, steel, and the like. But the newly created companies had no immediate cash-generation ability of their own.

A different pattern is warranted for the future. A national priority list could be drawn up with World Bank assistance establishing which are the most worthwhile projects closest to completion. These are the projects that merit continued funding, in preference to others that may indeed be viable but whose payoff is less certain or immediate. Until most of the projects under construction

Table 7

Balance of payments

annual average percent charges, except as noted

	1984	1985	Average 1986-90
Assumptions			
OECD real GNP	4.0	2.8	2.3
*OECD inflation**	0.0	8.0	6.0
LIBOR, % per annum	12.0	12.0	9.0
OPEC oil prices	—2.0	—2.0	6.0
Brazil real GDP	0.5	3.0	5.4
Results			
Merchandise exports	14.0	9.0	9.6
Merchandise imports	—7.0	7.5	13.1
Non-oil imports	9.0	17.0	16.0
Trade surplus, $ billions	10.5	11.7	13.2
Interest payments, $ billions	—12.6	—13.8	—11.7
Current account, $ billions	—5.1	—4.5	—3.0
External debt, $ billions			
at year-end	103	108	113**
% of total exports	355	340	235**

*Manufactures prices in dollar terms.

**1990.

are finished, new projects should be eschewed. Moreover, financing needs for all projects should be met, to a much greater extent than hitherto, through internal cash generation: operating concerns must increase prices substantially above break-even levels and thereby contribute to other public-sector companies — those that have no current revenues and that must therefore borrow to finance profitable investments. A second avenue to raise funds should be the sale of equity participations, whether through the stock exchange (as done to a limited extent by Petrobras, CVRD, and the Banco do Brasil) or by way of joint ventures with local and foreign capital (Usiminas, Cobra, and Siderurgica de Tubarao). The combination of a short list of priority projects and minimal reliance on debt issuance could appreciably diminish public-sector borrowing.

Substantial savings can be obtained by the continued elimination of subsidies. Aside from phasing out those to wheat consumption and sugar production, as was pledged a year-and-a-half ago, the authorities should review other subsidies. Principal among them are the tax and credit benefits accorded to companies exporting manufactured goods — instituted when neither the cruzeiro nor labor costs were as competitive as they are now. If, as is sometimes argued, they are still needed to compensate exporters for the cost of high tariffs and other import restrictions, industry ought to avail itself of the drawback scheme that has been expanded recently thanks to World Bank funding. This scheme enables exporting companies to import necessary raw materials, parts, and components duty-free. Unlike most subsidies now available to exporters, this program is more acceptable internationally and is thus less susceptible to countervailing duties.

As for the social security system, it has not been possible to cover its ballooning expenditures through higher contributions or indirect taxes. Ever-increasing transfers from the treasury and loans from the central bank have proved necessary. The basic problem is that eligibility requirements are too liberal, for example, granting retirement benefits after at most 35 years of work, regardless of age. A recent survey showed that 60% of those receiving pensions had started to collect by age 55 — and could expect to continue to do so for about 20 more years. Even mature industrial countries with far greater per capita incomes than Brazil find such liberality of social provision burdensome.

Neither increases in tax rates nor reductions in wages offer much further promise. The country's tax burden has increased substantially in recent years and is quite high by international standards. Although the revenue yield has been less than anticipated, it will rise over time once the pace of economic activity recuperates. Moreover, the collection problem will ease as inflation abates. The current wage policy probably has delivered all the expenditure savings it can wisely attempt. In fact, if the legislation is not soon amended, public-sector efficiency will suffer: the best-qualified civil servants and the skilled workers and managers of state enterprises — those who have suffered a major erosion of their standard of living — will leave their jobs in the public sector. More enlightened wage legislation would allow free collective bargaining in the private sector; give management in state enterprises the right to set compensation levels in accordance with profitability; and grant other public-sector employees raises in line with inflation, including a partial catch-up for higher-paid civil servants.

Brazil also needs to address weaknesses in its financial system, notably the problems of its savings and loan institutions. The inability of those banks to earn enough on their portfolios to cover the interest they must pay to their depositors calls for fiscal assistance. It probably would entail limiting their mortgage lending to low-income borrowers to an amount covered by a budgetary allocation, and injecting additional capital. The objective ought to be to free the monetary authorities from the constraints arising from the weak condition of the savings and loan institutions.

Reduced reliance on foreign savings is not only dictated by international debt considerations, but also is consistent with the favorable balance of payments outlook despite high dollar interest rates. Already Brazil has reduced its current account deficit by two-thirds since 1982, an improvement won not just by slashing imports but also, and increasingly, th[illegible] export expansion. Although the pace of economic growth in the industrial countries will presumably slow from the rapid 4% or more now projected for 1984, Brazil's goods and services exports can reasonably be expected to rise at an annual average rate of about 10% during the second half of the 1980s (see Table 7). To be sure, Brazil's exports would be set back by any new slowdown in OECD activity, such as will very likely occur at some point. However, even on a conservative assessment it seems realistic to envisage Brazil's trade surplus edging higher from the present level of $10-$12 billion to perhaps $15 billion by the end of the decade. This would shrink the current account deficit to about $3 billion per annum on average, and quite possibly less at least in some years. On the same reading, the critical foreign debt to exports ratio could decline from its present 350% to below 250% by the end of the decade, perhaps even close to 200%.

With the current account deficit so much reduced, Brazil's needs for fresh commercial bank credit should run to only $2-$3 billion per annum in 1985-87, and could be even less thereafter. Thus, during the next three years creditor bank exposure would rise barely 3% annually, well below both the recent and prospective growth of the banks' capital. Most of this new bank money could be provided through cofinancings with the World Bank; the possibilities are now being explored by the Brazilian authorities. Despite these small new money requirements, it would still be constructive for Brazil and its creditors to restructure maturities on the country's outstanding obligations. If such restructuring provides an appropriate grace period, it will be possible to bring down Brazil's gross financing requirements during the remainder of the decade to a level not much greater than its net new money needs.

All this adds up to a rather favorable outlook for Brazil's balance of payments and financing. Even more significant, it is achievable in conjunction with a return to economic growth in Brazil of at least 5% per annum. There is a further avenue by which Brazil can advance its growth prospects, while still holding down the growth of foreign debt. Brazil has the potential to attract significant foreign savings through a more hospitable approach to overseas direct investment. This would entail a relaxation of existing restrictions which place the country at a disadvantage relative to other developing and industrial countries. Not only would increased private foreign investment inflows help the balance of payments, they also would confer important benefits in new technology — an area in which Brazil cannot afford a go-it-alone approach. With good export-oriented management, the coupling of both foreign and indigenous technology with the country's unequaled natural resource endowment can once again set Brazil on the road to healthy economic growth and rising living standards.

Statistical appendix

for key to data in tables see April 1984 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

		United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Pre-June 1970 parities		114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates		103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980		90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981		99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982		109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983		114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1983																	
July		115.1	101.0	106.9	89.8	86.2	107.2	90.6	93.4	103.5	89.7	104.5	76.8	111.7	95.4	99.9	82.6
August		117.0	101.2	106.2	91.5	85.6	106.5	89.6	94.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September		116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October		114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November		116.5	100.9	110.7	94.8	85.1	107.1	88.3	92.8	103.2	88.4	104.4	75.9	112.8	94.6	100.9	82.7
December		118.0	100.4	112.1	94.2	84.7	106.8	88.0	91.8	102.8	88.2	104.1	75.8	113.8	94.0	99.5	83.1
1984																	
January		119.1	100.5	113.3	95.5	84.1	106.5	87.6	91.5	102.6	87.7	103.7	76.3	113.8	93.6	99.2	83.4
February		117.3	100.2	111.9	97.3	84.7	108.0	87.0	91.4	103.5	88.3	104.3	77.1	112.2	94.0	99.0	82.9
March		115.4	98.0	114.7	97.2	85.3	109.0	87.2	89.8	104.2	89.0	105.0	77.2	111.7	94.6	98.7	83.5
April		116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
May		119.5	96.8	114.6	95.1	84.6	107.7	86.9	89.1	103.8	88.8	104.4	78.4	110.9	93.6	99.1	83.6
June		120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
June	*1*	119.2	96.8	114.0	94.1	84.9	108.2	87.0	88.9	103.8	88.8	104.5	78.2	110.9	93.6	99.1	83.3
	8	118.7	96.3	113.9	93.9	85.1	108.6	86.9	88.6	104.5	89.1	104.8	78.4	110.5	94.0	99.2	83.1
	15	119.6	96.3	113.6	93.9	84.9	108.2	87.0	88.7	104.5	89.0	104.6	78.3	110.0	94.1	99.4	83.4
	22	120.7	96.4	113.4	92.8	84.7	107.8	87.0	88.8	104.1	88.9	104.4	77.9	110.1	93.7	99.5	83.6
	29	122.0	95.7	112.3	91.4	84.7	107.8	87.2	88.3	104.0	88.9	104.4	77.6	109.6	93.6	98.5	83.9
July	*6*	123.5	95.4	110.3	91.7	84.7	107.7	87.5	87.7	104.3	89.2	104.3	77.5	109.0	93.7	98.1	84.3
	13	124.1	94.9	111.2	90.0	84.7	107.9	87.5	87.0	104.0	89.2	104.2	77.2	108.3	93.7	97.6	84.3

Real effective exchange rates

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.1	103.5	103.5	99.8	100.2	107.4	99.9	101.9	98.7	103.6	96.6	101.2
1981	100.7	100.0	104.6	102.8	100.2	97.3	98.7	102.3	99.1	100.3	97.6	99.0	98.8	99.4	100.9	102.0
1982	109.9	100.4	92.3	104.3	97.7	99.2	97.8	97.9	100.7	92.3	102.5	99.1	102.6	97.1	102.5	96.7
1983	112.7	103.0	96.6	100.1	95.9	99.4	100.0	92.0	101.6	92.1	101.8	89.5	105.3	98.8	101.3	91.5
1983																
July	113.5	103.8	95.4	97.6	95.3	98.5	100.4	93.9	101.4	92.0	101.5	87.9	105.0	97.0	101.2	92.8
August	115.5	103.9	93.8	99.6	94.6	98.2	99.1	94.4	100.7	91.7	101.1	88.1	106.0	96.3	101.1	93.3
September	114.2	104.4	94.9	101.1	95.2	98.3	99.6	94.4	100.6	90.8	101.1	88.3	105.7	97.8	103.3	92.5
October	113.3	103.3	97.4	102.4	95.6	98.9	99.7	92.5	101.4	90.8	101.0	87.9	105.9	97.7	102.7	92.5
November	114.5	103.2	97.4	104.1	95.5	97.8	99.7	93.3	100.8	90.8	100.2	88.4	105.9	96.9	102.4	93.3
December	115.6	103.0	98.6	103.8	95.6	97.4	99.8	92.1	100.4	90.3	99.8	88.9	106.4	95.7	101.5	94.1
1984																
January	116.2	103.5	99.2	105.5	94.4	96.7	100.2	91.9	102.2	89.9	100.5	89.9	106.1	95.4	101.3	95.1
February	114.2	103.5	97.7	107.7	95.6	97.8	100.0	91.9	102.9	90.1	101.2	91.0	104.3	97.0	101.5	94.7
March	112.0	101.6	99.8	107.8	96.8	98.5	100.5	90.6	103.7	90.5	101.7	91.7	103.9	96.3	101.0	95.7
April	113.0	101.4	100.4	105.8	96.9	98.0	101.0	89.8	103.0	90.0	102.0	92.3	103.5	95.6	101.0	95.6
May	115.6	101.0	99.1	106.0	96.6	97.0	101.2	90.2	102.3	89.4	102.0	93.1	102.9	94.8	100.7	95.9
June	116.1	100.7	97.6	103.9	97.2	97.2	101.7	89.9	102.8	89.1	102.3	92.9	102.1	94.8	100.7	95.9

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

		1980	1981	1982	1983	1984					
		Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun
Eurodollar	overnight	19.25	12.87	9.25	9.50	9.25	9.38	10.13	10.25	10.38	11.25
	one month	19.12	13.31	9.12	9.69	9.50	9.88	10.44	10.63	11.06	11.75
	three months	17.55	13.75	9.19	9.81	9.63	10.13	10.63	10.94	11.75	12.13
	six months	16.37	14.81	9.50	10.06	9.88	10.38	10.94	11.25	12.50	12.63
	twelve months	14.87	14.75	9.62	10.37	10.19	10.81	11.44	11.75	13.63	13.50
Euro-Canadian dollar	one month	17.50	15.37	10.00	9.12	9.63	9.63	10.00	10.00	10.69	11.75
	three months	16.88	15.37	10.00	9.50	9.63	9.81	10.38	10.50	11.38	12.13
	six months	15.37	16.37	10.13	9.75	9.88	10.00	10.69	10.94	12.31	12.69
	twelve months	14.00	16.37	10.25	10.00	10.06	10.38	11.19	11.44	13.38	13.50
Euro-French franc	one month	11.12	15.75	23.00	12.12	12.13	16.00	12.94	11.94	12.00	11.81
	three months	11.75	17.00	24.00	12.19	13.00	17.25	14.38	13.13	13.19	12.31
	six months	12.25	18.00	22.00	12.31	13.75	16.75	15.13	13.88	14.19	13.25
	twelve months	12.87	18.25	19.75	12.62	14.38	16.13	15.88	14.88	14.94	14.56
Euromark	one month	8.87	10.44	5.87	5.25	5.69	5.69	5.50	5.44	5.63	5.56
	three months	8.87	10.50	5.87	5.87	5.88	5.81	5.56	5.63	5.94	5.88
	six months	8.87	10.56	5.94	6.12	6.19	6.94	5.75	5.75	6.25	6.19
	twelve months	8.93	10.25	6.00	6.37	6.38	6.19	6.13	6.19	6.81	6.75
Euro-Dutch guilder	one month	8.87	10.75	5.12	5.81	5.88	5.94	6.06	5.75	5.94	5.94
	three months	9.31	10.75	5.19	6.00	5.94	6.00	6.06	5.94	6.13	6.13
	six months	9.37	10.75	5.38	6.25	6.13	6.06	6.19	6.06	6.88	6.44
	twelve months	9.62	10.75	5.63	6.37	6.44	6.44	6.50	6.44	6.94	6.94
Euro-Swiss franc	one month	6.00	8.87	2.81	3.37	3.00	3.44	3.50	3.31	3.94	4.19
	three months	6.00	9.25	3.25	3.75	3.44	3.63	3.63	3.63	4.06	4.44
	six months	5.75	9.25	3.44	3.94	3.81	3.88	3.81	3.94	4.44	4.56
	twelve months	5.50	8.50	3.44	3.94	3.94	4.13	4.13	4.19	4.75	4.75
Eurosterling	one month	14.75	15.37	10.56	9.12	9.19	9.13	8.75	8.56	8.94	8.81
	three months	14.75	15.69	10.44	9.31	9.38	9.19	8.88	8.81	9.81	9.44
	six months	14.25	15.69	10.31	9.50	9.56	9.31	9.06	9.06	10.44	9.94
	twelve months	14.00	15.37	10.31	9.81	9.88	9.50	9.31	9.38	10.94	10.56
Euroyen	one month	9.12	6.12	6.75	6.25	6.13	6.88	6.19	6.00	6.36	6.00
	three months	9.25	6.12	6.75	6.31	6.31	6.56	6.19	6.19	6.38	6.19
	six months	9.62	6.87	7.10	6.38	6.31	6.50	6.25	6.25	6.44	6.31
	twelve months	9.37	6.87	6.81	6.44	6.44	6.63	6.38	6.31	6.56	6.50
European currency unit	one month	11.04	14.63	12.44	8.63	8.81	9.00	10.00	8.81	9.00	9.00
	three months	11.57	14.75	12.31	9.06	9.19	9.31	10.00	9.06	9.38	9.31
	six months	11.75	15.00	12.00	9.44	9.44	9.63	10.00	9.56	9.88	9.81
	twelve months	11.65	14.55	11.19	9.63	9.63	9.94	10.13	10.00	10.25	10.25

International bond issues – by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Jun	
				Apr	May	Jun	1984	1983
Eurobonds	**31 616**	**51 645**	**48 501**	**6 114**	**2 642**	**4 869**	**34 817**	**25 107**
U.S. dollar	26 830	43 959	38 428	4 871	2 029	4 151	27 663	20 403
Canadian dollar	634	1 201	1 039	106	68	161	574	477
German mark	1 277	2 588	3 817	466	222	276	2 239	2 580
British pound	501	748	1 947	270	—	41	1 756	441
Japanese yen	368	374	212	133	65	43	348	148
European composite units	309	1 980	2 019	123	200	111	1 526	658
Other	1 697	795	1 039	145	58	86	711	400
Foreign bonds	**21 369**	**26 397**	**27 822**	**4 083**	**2 200**	**1 564**	**15 574**	**15 491**
U.S. dollar	7 552	5 946	4 545	1 690	200	19	3 287	2 598
German mark	1 310	2 952	2 671	132	153	110	1 018	1 641
Dutch guilder	481	956	1 053	67	227	48	562	663
British pound	746	1 214	811	184	125	117	744	222
Swiss franc	8 285	11 432	14 299	1 649	927	1 147	7 915	8 127
Japanese yen	2 457	3 418	3 772	356	542	106	1 783	1 965
Other	538	479	671	5	26	17	265	275
Total	**52 985**	**78 042**	**76 323**	**10 197**	**4 842**	**6 433**	**50 391**	**40 598**

International bond issues – by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984 Apr	1984 May	1984 Jun	Jan-Jun 1984	Jan-Jun 1983
Industrial countries	**40 861**	**63 062**	**60 303**	**8 995**	**3 937**	**6 046**	**44 149**	**32 227**
Australia	991	2 250	2 529	171	98	203	1 073	781
Austria	1 557	1 668	1 290	235	86	146	1 227	890
Belgium	527	211	1 116	146	43	400	750	383
Canada	10 648	11 979	7 487	1 091	272	469	3 833	3 789
Denmark	695	1 269	1 719	130	100	116	1 603	712
Finland	672	815	866	80	109	167	876	560
France	3 156	8 386	6 461	5	716	300	3 322	4 098
Germany	279	1 101	3 095	18	—	131	1 043	1 740
Ireland	517	625	959	—	55	37	264	290
Italy	1 108	2 214	1 565	20	59	226	887	385
Japan	6 928	8 397	13 977	2 322	1 309	1 984	11 160	8 250
Netherlands	630	894	935	150	32	—	677	482
New Zealand	1 107	1 375	645	247	65	32	475	448
Norway	530	832	624	100	65	100	467	287
Portugal	30	206	76	—	60	43	224	46
South Africa	92	374	548	69	155	139	627	336
Spain	444	747	1 470	135	—	—	702	637
Sweden	2 050	2 479	3 809	1 644	107	804	4 537	2 249
United Kingdom	1 408	1 201	1 398	390	150	—	2 036	634
United States	6 770	14 538	7 325	1 956	306	654	7 255	3 722
*Other**	722	1 501	2 409	86	150	95	1 111	1 508
Developing countries	**4 886**	**5 003**	**2 535**	**95**	**206**	**148**	**1 177**	**886**
Latin American countries	**3 658**	**2 480**	**71**	—	**31**	**19**	**50**	**71**
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Mexico	3 012	1 919	—	—	—	19	19	—
Panama	25	—	21	—	—	—	—	21
Venezuela	291	385	—	—	—	—	—	—
*Other***	25	50	50	—	31	—	31	50
Asian countries	**1 068**	**2 075**	**2 252**	**95**	**175**	**129**	**1 087**	**723**
Hong Kong	70	40	50	—	—	—	—	—
India	271	225	60	—	25	46	121	40
Indonesia	97	412	328	—	20	30	50	37
Korea	323	172	556	45	95	21	316	345
Malaysia	—	807	883	—	35	32	417	224
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	—	—	—	—
Thailand	93	63	265	50	—	—	183	37
Other	85	181	40	—	—	—	—	40
Middle Eastern and African countries	**160**	**448**	**212**	—	—	—	**40**	**92**
Egypt	—	75	—	—	—	—	40	—
Israel	117	200	135	—	—	—	—	75
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	—	—	—	—	17
Centrally planned countries	**75**	**65**	**75**	—	—	—	—	**25**
China	—	65	50	—	—	—	—	—
Hungary	20	—	—	—	—	—	—	—
*Other****	55	—	25	—	—	—	—	25
International organizations****	**7 163**	**9 912**	**13 410**	**1 107**	**699**	**239**	**5 025**	**7 460**
Total	**52 985**	**78 042**	**76 323**	**10 197**	**4 842**	**6 433**	**50 391**	**40 598**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1980 Dec	1981 Dec	1982 Dec	1983 Nov	1983 Dec	1984 Jan	1984 Feb	1984 Mar	1984 Apr	1984 May	1984 Jun
United States companies											
Eurodollar	n.a.	n.a.	11.16	11.41	11.59	11.43	11.77	12.28	12.53	13.33	13.27
Euromark	n.a.	n.a.	7.24	7.23	7.34	7.34	7.26	7.24	7.29	7.55	7.48
Swiss franc	n.a.	n.a.	5.61	5.73	5.73	5.58	5.61	5.63	5.59	5.85	5.69
European governments											
Eurodollar	n.a.	n.a.	12.53	12.52	12.65	12.33	12.58	12.96	13.27	14.18	14.14
Euromark	n.a.	n.a.	8.10	8.07	8.12	8.08	7.63	7.82	7.88	8.03	8.07
Swiss franc	n.a.	n.a.	5.36	5.52	5.59	5.43	5.33	5.34	5.35	5.59	5.55
European currency unit	n.a.	n.a.	n.a.	11.75	11.77	11.53	11.08	11.29	11.49	11.40	11.63

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	1982	1983	1984			Jan-Jun	
				Apr	May	Jun	1984	1983
Industrial countries	**86 022**	**42 571**	**38 742**	**4 330**	**3 948**	**6 587**	**48 281**	**17 399**
Australia	1 680	4 721	2 924	115	426	—	888	1 281
Belgium	360	1 172	883	—	—	—	—	83
Canada	4 112	3 838	967	137	350	—	1 122	200
Denmark	1 661	789	1 586	—	1 000	—	1 018	1 586
Finland	463	631	283	—	—	15	15	214
France	3 912	5 703	1 700	548	—	850	1 592	1 237
Greece	1 039	770	1 085	—	—	—	400	547
Ireland	1 361	401	764	—	—	—	—	541
Italy	6 030	3 757	2 980	19	200	38	1 157	1 618
Norway	713	1 769	1 236	—	—	—	24	336
Portugal	1 590	1 388	913	—	—	300	596	300
South Africa	287	1 479	752	50	160	—	310	600
Spain	3 242	1 849	3 041	245	737	144	1 758	1 899
Sweden	1 867	649	3 188	300	—	3 000	3 300	2 350
United Kingdom	747	1 635	1 328	450	417	71	1 805	531
United States	54 784	6 516	12 948	1 295	250	2 130	32 037	2 653
Yugoslavia	684	719	615	—	10	—	10	615
*Other**	1 490	4 785	1 549	1 171	398	41	2 249	808
Developing countries	**45 264**	**41 519**	**32 937**	**5 438**	**2 323**	**560**	**18 820**	**23 079**
Latin American countries	**30 152**	**26 719**	**15 406**	**3 845**	**904**	**120**	**11 569**	**12 261**
Argentina	2 534	1 565	1 750	—	—	—	—	250
Brazil	5 751	5 716	4 475	—	—	—	6 500	4 475
Chile	2 204	1 194	1 319	—	784	—	784	1 300
Colombia	1 030	741	549	—	34	—	204	100
Ecuador	934	815	431	—	—	—	—	—
Mexico	7 530	7 953	5 138	3 800	—	50	3 850	5 100
Peru	1 407	1 069	500	10	—	—	10	466
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	1 203	867	1 007	35	86	70	221	333
Asian countries	**10 288**	**8 403**	**8 828**	**908**	**656**	**380**	**4 825**	**5 433**
India	377	284	809	20	—	6	231	495
Indonesia	725	1 250	1 467	—	50	—	832	1 146
Korea	2 824	2 923	3 250	388	522	95	2 125	1 389
Malaysia	1 725	1 909	950	500	—	19	669	860
Pakistan	350	455	365	—	—	—	—	340
Philippines	1 257	635	819	—	—	—	—	685
Thailand	692	268	349	—	20	253	520	34
Other	2 338	679	819	—	64	7	448	484
Middle Eastern and African countries	**4 824**	**6 397**	**8 703**	**685**	**763**	**60**	**2 426**	**5 385**
Algeria	—	26	1 934	—	20	—	20	726
Egypt	63	353	336	—	19	—	19	71
Morocco	774	326	226	20	—	—	115	207
Nigeria	1 802	2 042	1 775	—	—	—	—	1 633
Turkey	100	2 042	1 106	150	100	—	600	466
United Arab Emirates	363	93	875	39	—	—	39	690
Other	1 722	3 280	2 451	476	624	60	1 633	1 592
Centrally planned countries	**1 791**	**765**	**1 212**	**385**	**184**	**30**	**1 888**	**698**
East Germany	470	8	392	—	—	15	90	392
Hungary	550	340	683	385	—	—	797	238
Soviet Union	25	374	68	—	150	—	515	68
*Other****	746	43	69	—	34	15	486	—
International organizations****	**302**	**160**	**1 321**	—	—	—	—	**1 321**
Total	**133 379**	**85 015**	**74 212**	**10 153**	**6 455**	**7 177**	**68 989**	**42 497**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977	1978	1979	1980	1981	1982	1983			
						Dec	Mar	Jun	Sep	Dec
Gross market size	740	949	1 233	1 524	1 861	2 057	2 074	2 045	2 115	2 153
Nonbanks	135	174	245	327	428	474	472	489	515	527
Official monetary institutions	100	115	145	150	132	90	90	84	90	89
Other banks	505	660	843	1 047	1 301	1 493	1 512	1 472	1 510	1 537
Eurodollars as % of gross	76	74	72	75	78	79	80	80	80	80

Central bank discount rates

at or near end of month

	1980	1981	1982	1983		1984		Current	
	Dec	Dec	Dec	Sep	Dec	Mar	Jun	Jul 16 1984	effective since
United States	13.00	12.00	8.50	8.50	8.50	8.50	9.00	9.00	Apr 9, 84
Canada	17.36	14.66	10.05	9.49	9.96	10.78	12.36	13.26	Jul 12, 84
Austria	6.75	6.75	4.75	3.75	3.75	4.25	4.50	4.50	Jun 28, 84
Belgium	12.00	15.00	11.50	9.00	10.00	11.00	11.00	11.00	Feb 16, 84
Denmark	11.00	11.00	10.00	7.50	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	9.25	8.50	9.50	9.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	7.50	5.00	4.00	4.00	4.00	4.50	4.50	Jun 29, 84
Ireland	12.75	17.15	14.35	12.20	11.50	12.00	12.00	12.00	Mar 30, 84
Italy	16.50	19 00	18.00	17.00	17.00	16.00	15.50	15.50	May 5, 84
Netherlands	8.00	9.00	5.00	5.00	5.00	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	9.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	18.00	19.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	12.00	11.00	10.00	8.50	8.50	8.50	9.50	9.50	Jun 29, 84
Switzerland	3.00	6.00	4.50	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.00	14.37	10.00	9.50	9.00	8.50	8.88	10.00	Jul 6, 84
Japan	7.25	5.50	5.50	5.50	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	14.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	7.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 12, 81
Argentina	87.01	98.50	128.54	183.75	183.75	134.13	167.37	167.37	Apr 1, 84
Korea	15.50	10.50	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	4.54	6.69	6.30	6.91	8.05	8.37	n.a.	8.37	Mar, 84
Singapore	10.50	9.50	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	13.50	14.50	12.50	11.50	13.00	13.00	13.00	13.00	Dec 9, 83
Venezuela	13.00	14.00	13.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983		1984					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	18.90	12.37	8.95	9.34	9.47	9.56	9.59	9.91	10.29	10.32	11.06
Canada	15.61	14.53	10.63	9.43	8.78	9.60	9.63	9.50	9.72	9.78	10.75
Austria	11.50	7.50	6.00	5.62	5.75	5.87	5.87	6.00	6.38	6.50	6.50
Belgium	9.68	12.78	9.43	8.58	8.65	8.03	7.57	11.20	11.37	9.13	9.80
Finland	12.50	11.30	11.50	16.70	16.70	17.50	17.50	17.50	16.77	16.53	16.80
France	10.87	15.46	12.88	12.37	12.27	12.39	12.30	12.48	12.15	12.04	12.12
Germany	9.13	10.65	6.07	5.59	5.60	5.61	5.55	5.52	5.53	5.53	5.53
Ireland	13.31	16.88	14.54	12.25	12.19	12.12	11.25	10.75	12.12	11.75	10.94
Italy	17.50	20.63	19.00	17.79	17.88	17.91	17.67	17.25	17.25	16.93	16.75
Netherlands	8.37	10.67	5.31	5.70	5.84	5.77	6.12	6.13	5.79	5.62	5.85
Norway	11.00	18.60	11.00	13.00	13.00	12.80	11.45	13.00	13.00	13.00	12.50
Spain	16.74	18.73	20.30	18.56	16.41	10.16	18.14	14.75	11.54	11.93	11.91
Sweden	11.41	13.82	8.63	11.97	11.48	11.36	10.90	10.15	9.65	11.50	13.50
Switzerland	5.75	3.38	1.25	1.62	1.88	1.00	1.62	2.25	2.00	2.25	2.13
United Kingdom	13.00	9.13	6.70	7.06	7.77	7.31	7.12	7.08	6.25	3.25	5.00
Australia	9.51	12.84	11.04	9.31	4.56	7.09	9.05	11.21	13.45	13.30	11.44
Japan	9.49	6.70	6.92	5.99	6.47	6.05	6.04	6.05	5.88	5.74	5.81
South Africa	6.03	12.75	14.15	15.05	16.06	17.13	17.25	17.25	17.25	17.25	17.25
Argentina	70 84	84.93	155.32	178.30	178.30	138.61	128.53	128.52	161.88	161.88	161.88
Brazil	62.71	103.74	150.42	193.91	184.69	224.27	295.48	258.44	217.98	198.78	226.75
Hong Kong	14.05	10.75	9.13	10.00	13.90	7.25	3.31	7.32	9.00	11.00	13.00
Korea	14.82	14.40	13.84	12.90	11.40	11.30	10.50	10.00	11.70	11.90	n.a.
Philippines	15.70	14.70	16.12	18.96	31.18	25.52	21.76	9.99	17.93	33.17	n.a.
Singapore	10.23	3.96	11.45	7.23	7.05	6.92	6.83	7.64	8.13	7.82	6.80

Treasury bill rates

bond equivalent yields, at or near end of month

	1980	1981	1982	1983		1984					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	14.87	11.90	8.15	9.05	9.28	9.20	9.48	10.09	10.02	10.13	10.29
Canada	17.01	14.41	9.80	9.38	9.71	9.73	9.79	10.53	10.59	11.29	12.11
Belgium	12.75	16.00	12.25	10.85	10.85	10.85	12.25	12.25	11.75	11.75	11.75
Ireland	12.84	17.35	14.70	11.66	11.63	11.80	12.16	12.59	12.35	12.10	12.08
Italy	16.87	21.36	19.11	17.05	16.95	15.74	15.81	15.61	15.45	14.99	n.a.
Netherlands	8.00	9.75	5.62	5.62	5.63	5.75	6.12	5.88	5.38	5.63	5.88
Spain	n.a.	n.a.	15.28	14.53	14.46	13.61	13.66	13.20	12.64	12.04	11.17
Sweden	n.a.	n.a.	12.90	12.10	11.75	11.10	11.15	10.80	10.99	11.83	14.20
United Kingdom	13.45	15.31	9.90	9.08	9.08	9.08	9.08	8.59	8.59	9.99	9.08
Australia	12.17	13.27	9.39	9.32	8.54	9.43	10.35	13.11	11.89	11.81	11.24
Japan	5.93	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	11.25	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
South Africa	6.31	14.55	14.62	17.47	18.43	18.55	18.57	18.57	18.64	18.64	18.44
Brazil	65.87	92.62	115.40	179.15	179.15	179.15	179.15	179.15	179.15	179.15	179.15
Mexico	27.73	33.33	57.44	53.85	53.78	53.02	50.32	46.16	46.63	n.a.	n.a.
Philippines	12.70	13.22	14.54	15.63	15.99	16.27	17.01	17.25	17.61	20.81	n.a.
Singapore	6.77	3.03	2.74	2.62	2.59	2.67	2.65	2.66	2.87	3.00	3.01

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1980	1981	1982	1983		1984					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	17.62	12.78	8.81	9.31	9.75	9.36	9.68	10.30	10.50	10.94	11.63
Canada	17.50	15.25	9.95	9.60	9.87	9.85	9.95	10.70	10.75	11.55	12.50
Belgium	13.10	16.00	12.35	10.75	11.00	11.00	12.50	12.35	11.90	11.90	11.90
France	11.56	15.25	12.75	12.31	12.19	12.25	12.54	12.56	12.31	12.25	12.06
Germany	10.20	10.50	6.20	6.25	6.30	6.10	5.85	5.80	5.70	6.25	6.10
Ireland	13.62	18.50	15.75	12.37	12.19	12.25	12.56	13.00	12.88	12.75	12.50
Italy	17.37	21.00	19.00	17.88	17.88	17.88	17.00	17.25	17.25	16.75	16.63
Netherlands	9.37	11.00	5.25	6.31	6.00	5.94	6.00	6.06	5.88	6.13	6.19
Portugal	11.00	13.80	15.04	24.17	24.11	24.06	23.79	23.99	24.04	24.00	25.25
Spain	17.40	15.52	16.55	20.29	18.48	17.30	18.30	16.42	15.07	14.66	13.45
Switzerland	7.50	10.12	3.87	4.25	3.87	3.62	3.75	3.94	3.88	4.25	4.50
United Kingdom	14.75	15.69	10.50	9.25	9.31	9.37	9.21	8.88	8.81	9.75	9.44
Australia	13.00	16.00	10.65	10.60	9.50	11.00	13.00	13.55	14.20	13.55	12.70
Japan	9.80	6.30	6.80	6.42	6.42	6.30	6.40	6.40	6.20	6.35	6.40
New Zealand	14.25	16.05	16.75	12.00	12.10	13.85	15.00	14.75	15.00	17.00	17.00
South Africa	7.12	15.47	15.26	18.19	19.12	19.07	19.01	18.30	19.07	18.00	17.90
Chile	26.79	34.54	71.44	25.34	22.42	19.56	14.03	11.35	18.16	18.16	18.16
Hong Kong	17.69	14.18	10.13	11.50	12.84	11.37	7.87	7.90	9.93	12.38	13.13
Indonesia	12.54	14.48	18.50	15.00	19.50	19.00	20.50	19.50	18.50	19.00	20.00
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.41	9.50	8.50	8.65	9.80	9.47	8.51	8.95	9.10	9.20	9.70
Philippines	14.99	17.70	15.96	17.34	15.61	16.08	17.41	17.14	15.83	26.51	n.a.
Singapore	14.12	7.81	8.69	7.62	8.44	7.75	7.75	8.50	8.63	9.13	9.00
Taiwan	14.49	10.94	9.94	7.26	7.65	9.22	9.42	7.81	7.31	6.15	7.77
Thailand	16.55	14.29	12.25	14.50	16.00	16.50	17.00	15.50	13.50	14.00	13.50

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983		1984					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	16.25	12.62	8.25	9.30	9.70	9.40	9.77	10.35	10.50	11.50	11.70
Canada	17.00	15.20	9.85	9.50	9.82	9.80	9.90	10.65	10.70	11.50	12.45
Austria	11.25	9.63	6.25	6.37	6.50	6.50	6.25	6.44	6.56	6.88	6.88
Belgium	12.63	15.50	12.25	11.25	11.25	10.87	12.37	11.75	11.50	11.88	12.50
Denmark	10.00	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	11.25	9.16	8.24	7.70	7.66	7.72	7.76	7.76	7.76	7.55	7.55
Germany	8.00	9.50	6.00	5.80	5.90	5.65	5.40	5.35	5.35	5.65	5.60
Ireland	13.62	18.38	15.25	12.25	11.75	11.87	12.37	12.63	12.50	12.50	12.25
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	11.64	11.64
Netherlands	9.50	11.00	5.37	6.19	6.13	5.94	6.00	6.06	5.75	6.00	6.13
Norway	11.00	12.75	13.50	12.50	12.75	13.00	12.50	12.75	12.75	12.50	12.50
Portugal	12.00	14.00	15.00	21.50	21.50	21.50	21.50	21.50	21.50	21.50	28.00
Spain	4.50	11.78	12.53	12.50	12.62	12.49	12.52	12.35	12.64	12.49	n.a.
Sweden	13.20	12.65	12.15	12.30	11.70	11.00	11.10	10.65	10.65	11.25	13.65
Switzerland	7.50	8.75	3.00	3.50	3.50	3.25	3.25	3.00	3.00	3.25	3.25
United Kingdom	14.87	15.69	10.31	9.22	9.31	9.37	9.25	8.88	8.91	9.94	9.44
Australia	12.71	15.65	10.20	10.35	10.40	11.25	12.20	13.13	13.36	13.43	12.80
Japan	9.00	6.50	7.00	6.60	6.50	6.52	6.63	6.50	6.35	6.50	6.45
New Zealand	13.50	15.50	16.50	10.75	11.50	13.75	10.00	10.00	14.75	16.50	15.00
South Africa	7.87	14.75	15.25	18.43	20.13	19.45	18.88	19.38	18.88	18.78	18.65
Argentina	72.00	86.76	103.42	176.41	176.41	139.91	121.66	121.66	158.17	158.17	158.17
Brazil	54.00	110.05	21.00	24.00	23.00	26.00	25.00	23.00	19.00	22.00	22.00
Chile	39.45	36.87	57.72	25.19	22.28	19.74	12.95	11.09	18.16	18.16	18.16
Hong Kong	13.00	12.50	7.50	9.00	9.00	7.00	5.50	5.50	8.00	9.50	12.50
Korea	14.82	14.40	7.60	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	8.60	10.00	8.40	7.60	7.75	7.75	7.75	7.83	7.83	8.70	8.83
Mexico	26.15	31.82	52.54	54.84	54.70	53.86	51.21	47.63	47.30	n.a.	n.a.
Philippines	14.00	13.35	14.10	14.93	14.96	14.33	15.57	15.37	15.30	15.92	n.a.
Singapore	13.19	7.50	8.25	7.19	7.44	7.13	7.19	7.69	8.01	8.38	8.19
Taiwan	10.25	10.75	7.50	7.00	7.00	7.00	7.00	7.00	7.00	6.75	6.75
Thailand	9.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	16.00	14.75	15.50	12.00	12.00	11.50	11.50	11.00	11.50	12.00	12.00

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983		1984					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	11.46	14.33	10.61	11.89	12.00	11.72	12.13	12.49	12.79	13.58	13.75
Canada	12.69	15.27	11.69	11.80	12.02	11.92	12.40	13.06	13.31	13.93	13.81
Austria	9.62	10.37	8.81	8.06	8.02	7.96	7.88	7.88	7.94	7.99	8.06
Belgium	13.04	13.99	12.66	11.75	11.89	11.97	12.35	12.20	12.08	12.19	12.13
Denmark	19.98	20.91	20.14	14.22	12.96	13.39	14.02	14.78	14.27	15.20	15.54
Finland	10.42	10.98	10.64	11.16	11.16	11.17	10.62	11.19	10.80	11.20	11.29
France	14.31	16.44	15.40	14.12	13.96	13.76	13.78	14.05	13.81	13.82	13.99
Germany	9.19	9.71	7.90	8.34	8.38	8.33	8.13	8.18	8.18	8.29	8.25
Ireland	15.63	18.28	14.54	13.72	14.25	13.94	14.16	14.08	14.14	14.49	14.58
Italy	16.23	21.39	19.70	17.78	17.69	16.91	16.34	15.69	15.75	15.75	n.a.
Netherlands	10.48	11.28	8.16	8.57	8.58	8.57	8.56	8.40	8.45	8.52	8.68
Norway	10.44	12.37	13.32	12.50	12.50	12.50	12.25	12.25	12.25	12.00	12.00
Portugal	17.19	17.39	16.63	22.80	22.11	21.19	21.57	21.97	22.37	n.a.	n.a.
Spain	16.15	16.20	15.92	19.50	18.71	18.33	18.68	18.74	18.64	n.a.	n.a.
Sweden	12.61	12.80	13.01	13.05	12.30	11.70	11.50	11.50	11.65	12.60	14.01
Switzerland	4.63	5.40	4.22	4.63	4.54	4.50	4.56	4.37	4.47	4.61	4.69
United Kingdom	13.05	15.02	10.62	9.93	9.94	9.97	10.04	9.89	10.16	10.73	10.81
Australia	13.00	15.00	13.00	13.40	13.65	13.70	14.05	14.00	14.00	14.10	14.00
Japan	9.04	8.32	7.76	7.39	7.19	7.20	7.06	6.74	6.68	7.45	7.46
New Zealand	12.99	12.55	12.84	10.61	10.50	10.84	11.33	10.42	n.a.	n.a.	n.a.
South Africa	11.81	13.33	11.31	13.63	13.64	14.13	13.80	13.78	14.46	14.68	14.72
Philippines	13.20	13.01	13.64	13.76	14.47	14.42	14.61	13.67	18.47	18.45	n.a.
Venezuela	7.39	12.50	15.00	14.00	13.50	13.00	13.00	13.00	13.50	14.00	14.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983		1984					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	21.50	15 75	11 50	11.00	11.00	11.00	11.00	11.50	12.00	12.50	13.00
Canada	18.25	16.50	12.50	11.00	11.00	11.00	11.00	11.50	11.50	12.00	12.00
Austria	12.50	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	15.75	18.00	15.50	13.25	13.75	13.75	14.75	14.75	14.75	14.75	14.75
Denmark	13.75	15.00	14.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Finland	9.83	9.84	8.95	10.15	10.18	10.30	10.36	10.38	10.42	10.43	n.a.
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	14.50	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
Italy	20.50	22.50	20.75	18.75	18.75	18.50	18.50	17.50	17.50	17.00	17.00
Netherlands	10.75	12.00	6.25	6.50	7.00	6.75	6.75	6.75	6.50	6.50	6.50
Norway	12.50	13.75	14.50	13.75	13.50	13.63	13.75	13.30	13.30	12.75	13.00
Portugal	18.75	20.50	23.50	30.00	30.00	30.00	30.00	30.00	30.00	29.00	29.00
Spain	18.50	17.04	19.00	22.87	20.85	20.01	20.55	19.44	17.96	17.55	n.a.
Sweden	14.00	15.00	15.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	14.50
Switzerland	5.75	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.00	14.50	10.00	9.00	9.00	9.00	9.00	8.50	8.50	9.00	9.25
Australia	13.50	15.75	15.00	13.25	12.75	11.50	13.00	14.00	15.50	15.00	14.75
Japan	8.16	6.95	6.28	6.08	5.89	5.81	5.77	5.76	5.80	5.80	5.80
New Zealand	13.00	13.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
South Africa	9.50	17.00	18.00	19.00	20.00	20.00	20.00	20.50	20.50	20.50	20.50
Argentina	77.00	92.60	109.50	188.58	188.58	152.08	133.83	133.83	170.33	170.33	170.33
Brazil	120.10	152.40	23.81	24.00	24.00	24.00	24.00	24.00	23.00	26.00	26.00
Chile	49.55	61.43	85.19	40.40	35.11	31.43	22.75	21.26	34.35	33.04	32.30
Hong Kong	17.00	16.00	10.50	13.50	13.50	11.50	10.00	10.00	12.00	12.75	13.75
Indonesia	21.00	19.25	22.00	19.50	19.75	20.00	21.25	21.50	20.75	21.00	20.75
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	8.50	12.00	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.50
Mexico	24.25	31.81	46.12	56.82	56.44	55.95	55.16	53.11	51.10	50.12	50.38
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	22.00	22.00	24.00	n.a.
Singapore	13.60	11.83	9.33	8.93	8.98	9.05	9.03	9.20	9.63	9.98	10.08
Taiwan	16.20	15.25	10.75	10.25	10.25	10.25	10.25	10.25	10.25	10.00	10.00
Thailand	16.50	17.00	16.00	15.50	16.00	16.00	16.50	17.00	17.00	17.00	17.00
Venezuela	15.00	15.50	17.00	16.00	16.00	16.00	14.50	14.50	15.00	15.00	15.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983		1984					
	Dec	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
United States	13.00	15.50	11.75	12.38	12.63	12.38	12.88	13.25	13.88	13.58	14.50
Canada	13.53	16.18	12.74	12.58	12.89	12.78	13.27	13.84	14.13	14.59	14.69
France	15.23	17.33	15.91	14.30	14.06	13.96	14.28	14.37	14.23	13.86	13.77
Germany	9.50	10.50	8.20	8.30	8.30	8.30	8.00	8.00	8.00	8.00	8.00
Netherlands	10.71	11.03	7.80	8.53	8.51	8.44	8.39	8.26	8.28	8.35	8.43
Norway	11.24	13.36	14.13	13.25	13.25	13.25	13.00	13.00	13.00	12.75	12.75
Spain	14.82	14.76	17.10	20.03	19.84	20.19	20.69	21.90	22.54	22.06	21.63
Sweden	11.95	12.94	13.37	12.51	12.21	12.15	11.96	11.84	12.04	12.23	14.03
Switzerland	n.a.	n.a.	4.87	4.94	4.94	4.93	4.91	4.85	4.91	5.10	5.07
United Kingdom	14.21	16.65	12.34	11.51	11.57	11.52	11.61	11.29	11.48	12.11	12.69
Australia	14.25	16.50	15.00	15.00	13.50	14.00	14.50	14.50	n.a.	n.a.	n.a.
Japan	8.60	7.70	7.55	7.27	7.09	7.05	7.04	6.92	6.89	7.16	7.13
Korea	28.20	26.90	15.90	14.20	14.20	14.30	14.00	13.60	13.00	13.20	n.a.
Venezuela	16.15	17.00	18.00	18.00	18.00	18.00	17.50	17.50	17.50	18.00	18.00

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World Financial Markets

Morgan Guaranty Trust Company of New York

August 1984

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Currency diversification for LDC external debt

Developing countries and their external creditors have been exploring various ways to ease debt-service burdens where financing problems have arisen. Several countries are negotiating to reschedule debt maturing over the next several years on terms that provide for longer grace periods when only interest payments will be made, lengthened periods over which principal amounts would be amortized, and lower effective interest charges. They also are seeking more favorable terms on new borrowings.

Banks already have extended more favorable terms, such as lower spreads and longer grace periods and final maturities to countries that are viewed as performing well under IMF-supervised adjustment programs and that are keeping current on their interest payments. Present or forthcoming rescheduling negotiations may lead to a further easing of terms.

Currency diversification is another approach to containing debt-service burdens, and one that merits fresh attention. This would involve redenominating a portion of existing debt or contracting new loans in currencies carrying lower market rates of interest than the dollar. Dollar interest rates in recent years have been considerably higher than interest rates on such currencies as the Japanese yen, German mark, and Swiss franc (see Table 1). These differentials have widened further during 1984. At present, the six-month LIBOR for Eurodollars is about 12% versus approximately 6¼% for Euroyen and Euromarks and 4¾% for Euro-Swiss francs.

Foreign borrowing by developing countries, especially from banks, has been predominantly in dollars. At least 80%-85% of the outstanding external debt of the major borrowing countries in Latin America is estimated to be denominated in dollars. Judging from the divergence between BIS-reporting banks' claims measured in constant versus current exchange rates, the dollar share of their debt to banks is even higher. This divergence over the period from the end of 1980 through the end of 1983, during which the dollar appreciated by 40% or more against most major European currencies and by nearly 15% against the yen, suggests that the nondollar portion of the bank debt of all non-oil developing countries did not exceed 15%. For Latin American countries it was less than 10%.

Had these countries diversified their borrowings into other major

Table 1

6-month LIBOR for various Eurocurrencies

averages of month-end rates, percent per annum

	1974-78	1979-83	Jan-Jul 1984
Dollar	8.27	13.26	11.40
German mark	5.46	8.43	6.30
Japanese yen	7.91	7.83	6.47
Swiss franc	4.32	5.46	4.20
French franc	11.93	15.74	14.61
Sterling	12.61	13.36	9.69

Table 2

Currency composition of public-sector external debt

percent of total

	Portion payable in				
			Of which		
	Dollars	*Other currencies*	*Marks*	*Yen*	*Swiss francs*
Denmark[1]	57	43	16	n.a.	11
Finland[1,2]	31	69	15	20	15
Ireland[1,2]	39	61	35	7	8
Sweden[1]	67	33	9	5	8
Australia[2,3]	26	74	19	25	20
Indonesia[4]	43	57	8	21	n.a.
New Zealand[5]	37	63	12	13	22
Thailand[6]	66	34	3	26	n.a.

[1] December 1983.
[2] Central government.
[3] June 1983.
[4] December 1982.
[5] March 1983.
[6] September 1983.

currencies to a greater extent, they would have realized substantial savings. Last year the Federal Reserve Bank of New York published a study showing that if the increases in the external debts to banks of non-oil developing countries during 1979-82 had been in a mix of dollars (67%) and other major currencies (33%), as opposed to dollars exclusively, those countries could have reduced their cumulative interest payments during the period by approximately \$4½ billion, thanks to the lower interest rates that prevailed on most nondollar currencies. In addition, their outstanding debt in dollar terms at the end of 1982 would have been \$11½ billion less due to the dollar's appreciation. These savings would have roughly doubled if maturing debt during the period also had been refinanced in the same mix of currencies. It should be noted that this study took no account of any reductions in the amount of new borrowing from banks that the interest payment savings might have permitted. It also implicitly assumed that the large-scale switching of the currency composition of new borrowing would not have affected the interest and exchange rates of the currencies involved.

The internationalization of financial markets has spurred the practice of diversifying borrowings by currency to take advantage of interest differentials. Many borrowers — corporations, governments and their agencies, and international institutions — regularly borrow in different currencies, weighing the trade-offs between interest rate differentials and exchange rate risks. As shown in Table 2, between one-third and two-thirds of the external debts of the governments or public sectors of several European and Asian-Pacific countries are payable in currencies other than dollars. Many developing countries have diversified at least a small portion of their external debt through their borrowings from the World Bank and other multilateral development lending agencies. The World Bank has borrowed actively in numerous currencies for a long time, taking advantage of interest differentials between the various currencies with the objective of minimizing its overall borrowing costs. While the World Bank passes on the exchange risks by lending the same currencies it has borrowed, it also passes on the resulting interest savings to developing-country borrowers.

Despite the potential for reducing interest costs, suggestions that developing countries act now to diversify the currency composition of their external debts have met a cautious reception. There is concern about the risk of future exchange rate losses, especially if diversification takes place when the dollar is so strong. Another question, in the case of borrowing on a floating rate basis, is whether interest rate differentials may narrow or possibly even reverse during the term of the borrowing, reducing or eliminating interest savings from currency diversification. Also, there are doubts

Table 3

Hypothetical loan assumptions

	Mark	*Swiss franc*	*Yen*	*Sterling*	*French franc*
LIBOR, % per annum	6.25	4.75	6.25	11.75	12.5
Weight in currency basket (%)	5.0	3.0	15.0	10.0	7.0
Exchange rate[1] *in year 0*	2.90	2.43	244.0	1.31	8.90
Scenario A					
Annual rate of dollar change[2]	—5.4	—6.8	—5.4	—0.2	0.5
Exchange rate in year 4	2.32	1.84	195.0	1.32	9.08
Exchange rate in year 8	1.85	1.39	156.0	1.34	9.26
Scenario B					
Annual rate of dollar change	—3.6	—5.0	—3.6	1.7	2.5
Exchange rate in year 4	2.50	1.98	211.0	1.22	9.82
Exchange rate in year 8	2.16	1.61	182.0	1.14	10.84
Scenario C					
Annual rate of dollar change	—7.2	—8.5	—7.2	—2.3	—1.5
Exchange rate in year 4	2.15	1.71	181.0	1.43	8.39
Exchange rate in year 8	1.60	1.21	134.0	1.56	7.90

[1] Units per dollar, except dollars per pound sterling.

[2] Calculated as the inverse of the interest rate differential.

about the wisdom of incurring liabilities in currencies without having earnings or assets in the same currencies, which would offer at least a partial hedge against exchange rate risks.

If existing interest rate differentials persist between the dollar and other currencies such as the yen, mark, and Swiss franc, however, the interest savings on diversified debt would be sufficient to offset exchange rate losses from a quite substantial dollar depreciation. Even if such losses eventually equal or even exceed cumulative interest savings over the life of a loan, a borrower can enjoy significant cash-flow benefits in the early years: the interest savings are immediate whereas the exchange rate losses on amortization payments occur later and are spread out, especially if loan terms provide for an initial grace period before amortization.

A hypothetical loan can illustrate the trade-off between exchange risks and interest costs through diversifying the currency mix of borrowings. Assume the loan amount is $100 million or its equivalent in a mix of currencies with a final maturity of eight years. Repayment of principal occurs in five equal annual installments, after a three-year grace period. The interest charge floats at 1% over the six-month LIBOR for all currencies, payable annually at the end of each year without fees or commissions. The dollar rate (12%) and those for the other currencies shown in Table 3 are assumed to be unchanged over the life of the loan and approximate present market levels. The currency composition of the multicurrency loan is a fixed basket with the dollar accounting for 60%. The remainder consists of marks (5%), Swiss francs (3%), yen (15%), sterling (10%), and French francs (7%). This composition by national currency approximates the breakdown by nationality of bank holdings of medium- and long-term public-sector external debt of the four largest Latin American borrowers. The dollar share combines the 36% participation of U.S. banks with the 24% held by banks whose home currencies are not represented in the basket.

Three exchange rate scenarios are used to compare the cash-flow implications of borrowing $100 million equivalent in this basket mix to the option of borrowing only dollars. Exchange rates under Scenario A reflect interest-rate parities derived from existing interest rate differentials. In this case, the depreciation of the dollar against the basket of currencies averages about 3% per annum — and close to 6% per annum against the three low-interest rate currencies. Under this scenario, the assumed dollar exchange rates vis-à-vis the mark, Swiss franc, and yen reach or exceed historical lows in six or seven years. Scenario B embodies a 2% per annum slower rate of dollar depreciation against the currency basket. Scenario C, in contrast, assumes a 2% per annum faster rate of dollar depreciation than in Scenario A.

Under Scenario A the savings on interest payments accrue annually throughout the life of the loan, thanks to the favorable interest rate differentials of the nondollar currencies (see Table 4). Almost all the savings on interest payments are generated by the relatively large differentials prevailing for the mark, the Swiss franc, and the yen vis-à-vis the dollar. The individual effects of the differentials with sterling and the French franc are small and practically offset each other. Collectively, these savings total $5.9 million, of which the major portion is concentrated in the early years prior to the onset of amortization payments. Net annual benefits turn negative beginning in the fourth year, the first repayment period, and continue negative for the remainder of the loan's life since dollar depreciation leads to annual exchange losses on amortization payments that are greater than the annual interest savings. On an undiscounted cumulative basis, the net benefits of mixed currency borrowing are a negative $3.8 million. However, the present value of the net benefits stream is zero, since, as mentioned earlier, the exchange rates assumed under Scenario A reflect interest parity values. Under present value criteria, a potential borrower might be indifferent to the borrowing options. But for a borrower facing near-term liquidity pressures, the mixed currency loan would be more advantageous owing to his improved cash-flow position in the early years arising from the positive net benefits from interest savings during the grace period. These savings naturally would be higher if the borrower opted for a loan with a foreign currency mix more heavily weighted toward the low-interest currencies such as the mark, Swiss franc, or yen.

The $7.6 million cumulative savings on interest payments in Scenario B surpass those of the earlier case due to the assumed slower rate of dollar depreciation. Moreover, the

Table 4

Hypothetical loan: net benefits from mixed currency borrowing

millions of dollars

	Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*	*Year 7*	*Year 8*	*Cumulative*	*Present value*[1]
Scenario A										
Savings on interest payments	1.3	1.2	1.0	1.0	0.7	—0.4	0.2	0.1	5.9	
Valuation adjustments on amortization	—	—	—	—1.2	—1.6	—1.9	—2.3	—2.7	—9.7	
Net benefits	1.3	1.2	1.0	—0.2	—0.9	—1.5	—2.1	—2.6	—3.8	0.0
Scenario B										
Savings on interest payments	1.3	1.3	1.3	1.3	1.0	0.7	0.5	0.2	7.6	
Valuation adjustments on amortization	—	—	—	—0.5	—0.7	—0.8	—1.0	—1.2	—4.2	
Net benefits	1.3	1.3	1.3	0.8	0.3	—0.1	—0.5	—1.0	3.4	3.2
Scenario C										
Savings on interest payments	1.2	1.0	0.8	0.6	0.3	0.1	0.0	—0.1	3.9	
Valuation adjustments on amortization	—	—	—	—1.9	—2.5	—3.1	—3.7	—4.4	—15.6	
Net benefits	1.2	1.0	0.8	—1.3	—2.2	—3.0	—3.7	—4.5	—11.7	—4.7

[1] Discounted at 12%.

cumulative valuation adjustments on amortization payments are less than half of those in Scenario A. As a result, the cumulative net cash flow improves and the present value of the net benefit stream is positive. A mixed currency loan would therefore be preferable to the all-dollar option under the assumptions of Scenario B.

The mixed currency loan is less favorable than the dollar option under Scenario C. In it the dollar weakening is steepest, bringing about smaller interest savings ($3.9 million) and larger exchange losses on amortization payments (—$15.6 million) than in either of the previous cases. The present value of the net benefit stream is negative. Nevertheless, the cash-flow benefits arising from interest savings during the early years persist and are significant.

The hypothetical loan assumes that interest rate differentials remain constant through time. Of course, these differentials could narrow, thereby lessening the interest savings offered by a floating rate loan denominated in a mix of currencies rather than in dollars alone. That would reduce the cushion for offsetting any exchange rate losses on principal payments. Still, some initial cash-flow benefits would result. Besides, it is far from certain that a narrowing of interest differentials would lessen the longer-term payoff from diversification. For example, if low inflation and market confidence in the United States persist, a narrowing of interest differentials might well be accompanied by a continuation of a strong dollar. Likewise, a sharp depreciation of the dollar might be associated with a widening of interest differentials.

In practice, accurate forecasting of interest and exchange rates is difficult, to say the least — witness, for example, the numerous mistaken predictions in recent years of the dollar's imminent decline. The hazards of forecasting reinforce the prudential case for LDCs to incur a portion of their debt in currencies other than the dollar to diversify their interest and exchange rate risks. Uncertainty also suggests the wisdom of implementing a currency diversification program gradually — along the lines of the averaging technique practiced by some stock market investors.

Some question whether a country should incur nondollar obligations if, as is the case with Mexico, its foreign exchange earnings are largely in dollars or its exports are priced in dollar terms in world markets. While a natural exchange rate hedge may make borrowing in currencies other than the dollar more attractive, the lack of such a hedge does not negate the potential benefits of diversification. In fact, borrowing a mix of currencies provides a degree of protection against commodity price fluctuations stemming from changes in the dollar's exchange rate against other major currencies. For example, if a weakening of the dollar leads to a strengthening in the dollar prices of the commodities exported by a country, the favorable effect on the latter's foreign exchange earnings may offset, at least in part, foreign exchange losses on debt-service obligations denominated in the currencies that appreciate against the dollar.

Not only does currency diversification offer benefits to borrowers, it also can be attractive for some lenders to provide credit in currencies other than the dollar. Indeed, a number of European and Japanese banks have indicated a keenness for the option to substitute their respective domestic currencies for dollars in the rescheduling of debts of several major Latin American countries. Funding loans in domestic currencies rather than dollars may be easier or more secure for nondollar-based banks. Moreover, having assets and liabilities denominated in domestic currencies avoids changes in balance sheet values arising from exchange rate movements. Such valuation changes, for example, can affect the size and concentration of a bank's loan portfolio. They also can affect capital-asset ratios, for which minimum requirements are prescribed by supervisory authorities in a number of countries.

Officials in the major creditor countries generally have been receptive to the idea that their nations' banks switch from dollars to domestic currencies in lending to developing countries. Besides lessening the possible funding risks of the banks, domestic-currency lending may ease the concerns expressed by some central banks about the adequacy of their foreign exchange resources should they be called upon in their capacity as lenders of last resort to provide liquidity support to their nations' banks. However, large-scale switching from dollars to domestic currencies could have an impact on interest and exchange rates. This may be one reason why Swiss authorities, while indicating support for a switch by Swiss banks from dollar to Swiss franc lending to LDCs, have suggested they might have a different view toward an extensive shift by non-Swiss banks to Swiss franc lending. Nonetheless, the feasible extent of currency switching in LDC lending is not limited by the relative representation of the various national groups of banks in existing lending, given the presence of large, well developed offshore markets for most major currencies.

To the extent that bank lenders and officials in major creditor countries are receptive to switching loans from dollars to other currencies, it seems sensible for developing countries whose external debts are payable wholly or largely in dollars to consider diversifying the currency composition of their debts. In addition to achieving a prudent diversification of interest and exchange rate risks, such countries could secure some important cash-flow benefits, at least over the next few years, if interest rate differentials continue to be as wide as they are now and have been in recent years. These cash-flow benefits could improve the debtor country's current account performance and reduce its net new borrowing requirements.

Mexico, for example, is seeking to reschedule $50 billion or so of public-sector external debt to banks maturing in the next six years. If, instead of being rescheduled in dollars, the whole amount were recast in the mix of currencies (60% in dollars and 40% in five other currencies) used in the hypothetical loan discussed earlier, the interest and exchange rates assumed in Scenario A would reduce Mexico's net new borrowing requirements by approximately $750 million-$1 billion per annum during the next four to five years. To be sure, that is not a major portion of Mexico's aggregate debt-service obligation, but it does represent a saving of roughly three-quarters of a percentage point in total interest expense, and it amounts to one-third or more of Mexico's expected new money needs during the next several years. The interest saving is especially constructive given the importance that financial markets and regulators attach to a country's ability to service interest obligations as a criterion of creditworthiness. Thus, currency diversification not only represents prudent borrowing practice for developing countries, but may actually assist them in rebuilding creditworthiness.

Statistical appendix

For key to data in tables see April 1984 issue.

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	95.4	99.4	82.2
1983																
August	117.0	101.2	106.2	91.5	85.6	106.5	89.6	94.0	103.1	89.2	104.1	77.0	112.3	94.5	100.3	82.8
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November	116.5	100.9	110.7	94.8	85.1	107.1	88.3	92.8	103.2	88.4	104.4	75.9	112.8	94.6	100.9	82.7
December	118.0	100.4	112.1	94.2	84.7	106.8	88.0	91.8	102.8	88.2	104.1	75.8	113.8	94.0	99.5	83.1
1984																
January	119.1	100.5	113.3	95.5	84.1	106.5	87.6	91.5	102.6	87.7	103.7	76.3	113.8	93.6	99.2	83.4
February	117.3	100.2	111.9	97.3	84.7	108.0	87.0	91.4	103.5	88.3	104.3	77.1	112.2	94.0	99.0	82.9
March	115.4	98.0	114.7	97.2	85.3	109.0	87.2	89.8	104.2	89.0	105.0	77.2	111.7	94.6	98.7	83.5
April	116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
May	119.5	96.8	114.6	95.1	84.6	107.7	86.9	89.1	103.8	88.8	104.4	78.4	110.9	93.6	99.1	83.6
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.3	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
July 6	123.5	95.4	110.8	91.7	84.7	107.7	87.5	87.7	104.3	89.2	104.3	77.5	109.0	93.7	98.1	84.3
13	124.1	94.9	111.2	90.0	84.7	107.9	87.5	87.0	104.0	89.2	104.2	77.2	108.3	93.7	97.6	84.3
20	124.2	95.0	110.8	90.2	84.5	107.7	87.3	87.8	104.2	89.3	104.0	77.3	108.0	93.8	97.2	84.4
27	124.5	95.9	109.9	90.2	84.5	107.6	87.2	88.3	104.1	89.4	103.8	77.4	107.1	93.6	97.1	84.5
August 3	124.7	96.6	110.5	91.0	84.3	107.3	87.1	88.1	103.9	89.3	103.6	77.1	107.5	93.4	97.1	84.5
10	124.5	96.7	111.2	91.6	84.2	107.1	87.1	88.2	103.8	89.1	103.7	77.0	108.0	93.5	97.3	84.6
17	123.9	96.8	111.5	91.6	84.4	107.3	86.6	88.2	103.7	89.3	103.9	76.5	108.9	93.5	97.1	84.4

Real effective exchange rates

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Neth-erlands	Spain	Swit-zerland	Den-mark	Norway	Swe-den
1980	89.4	99.6	103.0	93.0	102.2	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.7	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	95.9	99.3	100.1	92.0	101.6	92.1	101.8	90.5	105.3	98.8	101.3	91.5
1983																
August	115.5	103.9	93.8	99.7	94.6	98.2	99.1	94.4	100.7	91.7	101.1	89.0	106.0	96.2	101.1	93.3
September	114.1	104.4	94.9	101.0	95.1	98.3	99.5	94.4	100.6	90.8	101.1	89.5	105.7	97.7	103.3	92.5
October	113.2	103.3	97.4	102.3	95.5	98.9	99.7	92.5	101.4	90.8	101.0	89.1	105.9	98.4	102.6	92.4
November	114.4	103.2	97.4	104.0	95.4	97.7	100.0	93.3	100.8	90.8	100.2	89.6	105.8	96.6	102.4	93.3
December	115.5	103.0	98.5	103.8	95.5	97.3	99.9	92.1	100.4	90.3	99.7	90.5	106.4	95.6	101.5	94.1
1984																
January	116.1	103.7	99.1	105.4	94.3	96.7	100.3	91.9	102.1	89.8	100.4	91.7	106.0	95.2	101.3	95.1
February	114.1	103.4	97.6	107.4	95.5	97.7	100.0	91.9	102.9	90.0	101.2	92.9	104.3	96.5	101.5	94.7
March	112.0	101.6	99.8	107.5	96.4	98.5	100.6	90.6	103.6	90.5	101.7	93.9	103.9	96.2	101.0	95.7
April	113.1	101.4	100.4	105.5	96.7	98.1	101.2	89.9	103.1	90.1	101.3	94.5	103.3	95.5	101.0	95.6
May	115.9	100.4	99.1	105.7	96.4	97.0	101.2	90.2	102.4	89.6	101.3	94.5	102.8	95.5	101.7	95.8
June	116.3	100.2	97.7	103.7	97.0	97.3	101.8	89.6	102.5	89.4	101.5	94.4	102.1	95.4	101.5	96.0
July	119.9	99.6	95.3	100.8	97.1	96.7	102.5	88.9	102.1	89.4	101.0	93.6	99.9	95.3	99.7	97.2

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

		1981	1982	1983	1984						
		Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Eurodollar	*overnight*	12.87	9.25	9.50	9.25	9.38	10.13	10.25	10.38	11.25	11.75
	one month	13.31	9.12	9.69	9.50	9.88	10.44	10.63	11.06	11.75	11.50
	three months	13.75	9.19	9.81	9.63	10.13	10.63	10.94	11.75	12.13	11.81
	six months	14.81	9.50	10.06	9.88	10.38	10.94	11.25	12.50	12.63	12.25
	twelve months	14.75	9.62	10.37	10.19	10.81	11.44	11.75	13.63	13.50	12.75
Euro-Canadian dollar	*one month*	15.37	10.00	9.12	9.63	9.63	10.00	10.00	10.69	11.75	12.44
	three months	15.37	10.00	9.50	9.63	9.81	10.38	10.50	11.38	12.13	12.75
	six months	16.37	10.13	9.75	9.88	10.00	10.69	10.94	12.31	12.69	13.06
	twelve months	16.37	10.25	10.00	10.06	10.38	11.19	11.44	13.38	13.50	13.25
Euro-French franc	*one month*	15.75	23.00	12.12	12.13	16.00	12.94	11.94	12.00	11.81	11.38
	three months	17.00	24.00	12.19	13.00	17.25	14.38	13.13	13.19	12.31	11.75
	six months	18.00	22.00	12.31	13.75	16.75	15.13	13.88	14.19	13.25	12.69
	twelve months	18.25	19.75	12.62	14.38	16.13	15.88	14.88	14.94	14.56	13.63
Euromark	*one month*	10.44	5.87	5.25	5.69	5.69	5.50	5.44	5.63	5.56	5.25
	three months	10.50	5.87	5.87	5.88	5.81	5.56	5.63	5.94	5.88	5.75
	six months	10.56	5.94	6.12	6.19	6.94	5.75	5.75	6.25	6.19	6.13
	twelve months	10.25	6.00	6.37	6.38	6.19	6.13	6.19	6.81	6.75	6.56
Euro-Dutch guilder	*one month*	10.75	5.12	5.81	5.88	5.94	6.06	5.75	5.94	5.94	6.13
	three months	10.75	5.19	6.00	5.94	6.00	6.06	5.94	6.13	6.13	6.38
	six months	10.75	5.38	6.25	6.13	6.06	6.19	6.06	6.88	6.44	6.69
	twelve months	10.75	5.63	6.37	6.44	6.44	6.50	6.44	6.94	6.94	6.88
Euro-Swiss franc	*one month*	8.87	2.81	3.37	3.00	3.44	3.50	3.31	3.94	4.19	4.81
	three months	9.25	3.25	3.75	3.44	3.63	3.63	3.63	4.06	4.44	4.88
	six months	9.25	3.44	3.94	3.81	3.88	3.81	3.94	4.44	4.56	5.06
	twelve months	8.50	3.44	3.94	3.94	4.13	4.13	4.19	4.75	4.75	5.06
Eurosterling	*one month*	15.37	10.56	9.12	9.19	9.13	8.75	8.56	8.94	8.81	12.25
	three months	15.69	10.44	9.31	9.38	9.19	8.88	8.81	9.81	9.44	12.25
	six months	15.69	10.31	9.50	9.56	9.31	9.06	9.06	10.44	9.94	12.19
	twelve months	15.37	10.31	9.81	9.88	9.50	9.31	9.38	10.94	10.56	12.13
Euroyen	*one month*	6.12	6.75	6.25	6.13	6.88	6.19	6.00	6.38	6.00	6.13
	three months	6.12	6.75	6.31	6.31	6.56	6.19	6.19	6.38	6.19	6.31
	six months	6.87	7.10	6.36	6.31	6.50	6.25	6.25	6.44	6.31	6.31
	twelve months	6.87	6.81	6.44	6.44	6.63	6.38	6.31	6.56	6.50	6.50
European currency unit	*one month*	14.63	12.44	8.63	8.81	9.00	10.00	8.81	9.00	9.00	9.31
	three months	14.75	12.31	9.06	9.19	9.31	10.00	9.06	9.38	9.31	9.63
	six months	15.00	12.00	9.44	9.44	9.63	10.00	9.56	9.88	9.81	10.06
	twelve months	14.56	11.19	9.63	9.63	9.94	10.13	10.00	10.25	10.25	10.31

International bond issues – by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Jul	
				May	Jun	Jul	1984	1983
Eurobonds	**31 616**	**51 645**	**48 501**	**2 642**	**4 994**	**4 246**	**39 188**	**28 141**
U.S. dollar	26 830	43 959	38 428	2 029	4 276	3 343	31 131	22 480
Canadian dollar	634	1 201	1 039	68	161	156	730	558
German mark	1 277	2 588	3 617	222	276	251	2 490	2 891
British pound	501	748	1 947	—	41	198	1 954	745
Japanese yen	368	374	212	65	43	—	348	148
European composite units	309	1 960	2 019	200	111	208	1 734	824
Other	1 697	795	1 039	58	86	90	801	495
Foreign bonds	**21 369**	**26 397**	**27 822**	**2 200**	**1 564**	**1 647**	**17 421**	**17 427**
U.S. dollar	7 552	5 946	4 545	200	19	150	3 437	3 013
German mark	1 310	2 952	2 671	153	110	201	1 219	1 780
Dutch guilder	481	956	1 053	227	48	94	656	715
British pound	746	1 214	811	125	117	89	833	279
Swiss franc	8 285	11 432	14 299	927	1 147	654	8 569	9 142
Japanese yen	2 457	3 418	3 772	542	106	638	2 421	2 194
Other	538	479	671	26	17	21	286	304
Total	**52 985**	**78 042**	**76 323**	**4 842**	**6 558**	**6 093**	**56 609**	**45 568**

International bond issues — by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Jul	
				May	Jun	Jul	1984	1983
Industrial countries	**40 861**	**63 062**	**60 303**	**3 937**	**6 171**	**4 906**	**49 180**	**35 308**
Australia	991	2 250	2 529	98	303	82	1 255	1 207
Austria	1 557	1 668	1 290	86	246	335	1 662	916
Belgium	527	211	1 116	43	400	—	750	383
Canada	10 648	11 979	7 487	272	455	298	4 117	3 992
Denmark	695	1 269	1 719	100	116	747	2 350	712
Finland	672	815	866	109	167	—	876	607
France	3 156	8 386	6 461	716	300	825	4 147	4 215
Germany	279	1 101	3 095	—	131	46	1 089	1 919
Ireland	517	625	959	55	37	—	264	290
Italy	1 108	2 214	1 565	59	226	—	887	425
Japan	6 928	8 397	13 977	1 309	1 884	1 293	12 353	9 204
Netherlands	630	894	935	32	—	—	677	651
New Zealand	1 107	1 375	645	65	32	144	619	448
Norway	530	832	624	65	100	18	485	347
Portugal	30	206	76	60	43	21	245	46
South Africa	92	374	548	155	139	—	627	360
Spain	444	747	1 470	—	—	70	772	737
Sweden	2 050	2 479	3 809	107	804	48	4 585	2 402
United Kingdom	1 408	1 201	1 398	150	—	240	2 276	634
United States	6 770	14 538	7 325	306	693	659	7 953	4 230
*Other**	722	1 501	2 409	150	95	80	1 191	1 582
Developing countries	**4 886**	**5 003**	**2 535**	**206**	**148**	**256**	**1 433**	**1 598**
Latin American countries	**3 658**	**2 480**	**71**	**31**	**19**	—	**50**	**71**
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Mexico	3 012	1 919	—	—	19	—	19	—
Panama	25	—	21	—	—	—	—	21
Venezuela	291	385	—	—	—	—	—	—
*Other***	25	50	50	31	—	—	31	50
Asian countries	**1 068**	**2 075**	**2 252**	**175**	**129**	**256**	**1 343**	**1 375**
Hong Kong	70	40	50	—	—	—	—	—
India	271	225	60	25	46	—	121	40
Indonesia	97	412	328	20	30	—	50	37
Korea	323	172	556	95	21	45	361	395
Malaysia	—	807	883	35	32	123	540	724
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	—	—	—	—
Thailand	93	63	265	—	—	46	229	139
Other	85	181	40	—	—	42	42	40
Middle Eastern and African countries	**160**	**448**	**212**	—	—	—	**40**	**152**
Egypt	—	75	—	—	—	—	40	—
Israel	117	200	135	—	—	—	—	135
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	—	—	—	—	17
Centrally planned countries	**75**	**65**	**75**	—	—	—	—	**25**
China	—	65	50	—	—	—	—	—
Hungary	20	—	—	—	—	—	—	—
*Other****	55	—	25	—	—	—	—	25
International organizations****	**7 163**	**9 912**	**13 410**	**699**	**239**	**831**	**5 856**	**8 637**
Total	**52 985**	**78 042**	**76 323**	**4 842**	**6 558**	**6 093**	**56 609**	**45 568**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1981	1982	1983		1984						
	Dec	Dec	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States companies											
Eurodollar	n.a.	11.16	11.41	11.59	11.43	11.77	12.28	12.53	13.33	13.27	12.70
Euromark	n.a.	7.24	7.23	7.34	7.34	7.26	7.24	7.29	7.55	7.48	7.74
Swiss franc	n.a.	5.61	5.73	5.73	5.58	5.61	5.63	5.59	5.85	5.69	5.68
European governments											
Eurodollar	n.a.	12.53	12.52	12.65	12.33	12.58	12.96	13.27	14.18	14.14	13.61
Euromark	n.a.	8.10	8.07	8.12	8.08	7.63	7.82	7.88	8.03	8.07	8.31
Swiss franc	n.a	5.36	5.52	5.59	5.43	5.33	5.34	5.35	5.59	5.55	5.43
European currency unit	n.a.	n.a.	11.75	11.77	11.53	11.08	11.29	11.49	11.40	11.63	11.60

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	*1982*	*1983*	*1984*			*Jan-Jul*	
				May	*Jun*	*Jul*	*1984*	*1983*
Industrial countries	**86 022**	**42 571**	**38 742**	**3 948**	**7 894**	**5 648**	**55 257**	**19 392**
Australia	1 680	4 721	2 924	426	—	—	906	1 819
Belgium	360	1 172	883	—	—	—	—	83
Canada	4 112	3 838	967	350	—	750	1 872	200
Denmark	1 661	789	1 586	1 000	—	—	1 018	1 586
Finland	463	631	283	—	15	—	15	228
France	3 912	5 703	1 700	—	1 050	—	1 792	1 237
Greece	1 039	770	1 085	—	—	210	610	797
Ireland	1 361	401	764	—	—	71	71	621
Italy	6 030	3 757	2 980	200	36	436	1 593	1 755
Norway	713	1 769	1 236	—	—	—	24	356
Portugal	1 590	1 388	913	—	400	—	696	300
South Africa	287	1 479	752	160	—	40	350	702
Spain	3 242	1 849	3 041	737	144	100	1 861	1 959
Sweden	1 867	649	3 188	—	4 000	—	4 300	2 350
United Kingdom	747	1 635	1 328	417	71	911	2 716	604
United States	54 784	6 516	12 948	250	2 130	3 110	35 147	3 372
Yugoslavia	684	719	615	10	—	—	10	615
*Other**	1 490	4 785	1 549	398	48	20	2 276	808
Developing countries	**45 264**	**41 519**	**32 937**	**2 323**	**740**	**659**	**19 659**	**24 939**
Latin American countries	**30 152**	**26 719**	**15 406**	**904**	**120**	**160**	**11 729**	**13 181**
Argentina	2 534	1 565	1 750	—	—	—	—	250
Brazil	5 751	5 716	4 475	—	—	—	6 500	4 475
Chile	2 204	1 194	1 319	784	—	—	784	1 319
Colombia	1 030	741	549	34	—	—	204	310
Ecuador	934	815	431	—	—	—	—	431
Mexico	7 530	7 953	5 138	—	50	—	3 850	5 100
Peru	1 407	1 069	500	—	—	—	10	466
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	1 203	867	1 007	86	70	160	381	593
Asian countries	**10 288**	**8 403**	**8 828**	**656**	**380**	**399**	**5 224**	**6 017**
India	377	284	809	—	6	15	246	585
Indonesia	725	1 250	1 467	50	—	100	932	1 146
Korea	2 824	2 923	3 250	522	95	120	2 245	1 553
Malaysia	1 725	1 909	950	—	19	—	669	860
Pakistan	350	455	365	—	—	—	—	340
Philippines	1 257	635	819	—	—	—	—	715
Thailand	692	268	349	20	253	—	520	234
Other	2 338	679	819	64	7	164	612	584
Middle Eastern and African countries	**4 824**	**6 397**	**8 703**	**763**	**240**	**100**	**2 706**	**5 741**
Algeria	—	26	1 934	20	180	—	200	726
Egypt	63	353	335	19	—	—	19	135
Morocco	774	326	226	—	—	—	115	226
Nigeria	1 802	2 042	1 775	—	—	—	—	1 711
Turkey	100	2 042	1 106	100	—	—	600	501
United Arab Emirates	363	93	876	—	—	—	39	690
Other	1 722	3 280	2 451	624	60	100	1 733	1 752
Centrally planned countries	**1 791**	**765**	**1 212**	**284**	**30**	**64**	**2 052**	**928**
East Germany	470	8	392	—	15	—	90	392
Hungary	550	340	683	—	—	—	797	408
Soviet Union	25	374	68	150	—	—	515	68
*Other****	746	43	69	134	15	64	650	60
International organizations****	**302**	**160**	**1 321**	—	—	—	—	**1 321**
Total	**133 379**	**85 015**	**74 212**	**6 555**	**8 664**	**6 371**	**76 968**	**46 580**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*			*1984*
							Jun	*Sep*	*Dec*	*Mar*
Gross market size	740	949	1 233	1 524	1 861	2 057	2 045	2 115	2 144	2 257
Nonbanks	135	174	245	327	428	474	489	515	540	603
Official monetary institutions	100	115	145	150	132	90	84	90	89	90
Other banks	505	660	843	1 047	1 301	1 493	1 472	1 510	1 515	1 564
Eurodollars as % of gross	76	74	72	75	78	79	80	80	80	78

Central bank discount rates

at or near end of month

	1980	1981	1982	1983	1984				Current	
	Dec	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug 20 1984	effective since
United States	13.00	12.00	8.50	8.50	9.00	9.00	9.00	9.00	9.00	Apr 9, 84
Canada	17.36	14.66	10.05	9.96	10.84	11.54	12.36	12.98	12.43	Aug 16, 84
Austria	6.75	6.75	4.75	3.75	4.25	4.25	4.50	4.50	4.50	Jun 28, 84
Belgium	12.00	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	Feb 16, 84
Denmark	11.00	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	9.25	8.50	9.50	9.50	9.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	7.50	5.00	4.00	4.00	4.00	4.50	4.50	4.50	Jun 29, 84
Ireland	12.75	17.15	14.35	11.50	12.00	12.00	12.00	12.00	12.00	Mar 30, 84
Italy	16.50	19 00	18.00	17.00	16.00	15.50	15.50	15.50	15.50	May 5, 84
Netherlands	8.00	9.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	12.00	11.00	10.00	8.50	8.50	8.50	9.50	9.50	9.50	Jun 29, 84
Switzerland	3.00	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.00	14.37	10.00	9.00	8.50	9.00	8.88	11.88	10.88	Aug 9, 84
Japan	7.25	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	14.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	7.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 12, 81
Argentina	87.01	98.50	128.54	183.75	167.37	167.37	167.37	199.94	199.94	Jul 1, 84
Korea	15.50	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	4.54	6.69	6.30	8.05	9.50	9.64	n.a.	n.a.	8.37	Mar, 84
Singapore	10.50	9.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	13.50	14.50	12.50	13.00	13.00	13.00	13.00	13.00	13.00	Dec 9, 83
Venezuela	13.00	14.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983	1984						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	18.90	12.37	8.95	9.47	9.56	9.59	9.91	10.29	10.32	11.06	11.23
Canada	15.61	14.53	10.63	8.78	9.60	9.63	9.50	9.72	9.78	10.75	11.41
Austria	11.50	7.50	6.00	5.75	5.87	5.87	6.00	6.38	6.50	6.50	6.50
Belgium	9.68	12.78	9.43	8.65	8.03	7.57	11.20	11.37	9.13	9.80	10.22
Finland	12.50	11.30	11.50	16.70	17.50	17.50	17.50	16.77	16.53	16.80	16.53
France	10.87	15.46	12.88	12.27	12.39	12.30	12.48	12.15	12.04	12.12	11.51
Germany	9.13	10.65	6.07	5.60	5.61	5.55	5.52	5.53	5.53	5.53	5.57
Ireland	13.31	16.88	14.54	12.19	12.12	11.25	10.75	12.12	11.75	10.94	12.00
Italy	17.50	20.63	19.00	17.88	17.91	17.67	17.25	17.25	16.93	16.75	16.75
Netherlands	8.37	10.67	5.31	5.84	5.77	6.12	6.13	5.79	5.62	5.85	5.98
Norway	11.00	18.60	11.00	13.00	12.80	11.45	13.00	13.00	13.00	12.50	12.00
Spain	16.74	18.73	20.30	16.41	10.16	18.14	14.75	11.54	11.93	11.91	11.15
Sweden	11.41	13.82	8.63	11.48	11.36	10.90	10.15	9.65	11.50	13.50	12.95
Switzerland	5.75	3.38	1.25	1.88	1.00	1.62	2.25	2.00	2.25	2.13	n.a.
United Kingdom	13.00	9.13	6.70	7.77	7.31	7.12	7.08	6.25	3.25	5.00	8.63
Australia	9.51	12.84	11.04	4.56	7.09	9.05	11.21	13.45	13.30	11.44	11.34
Japan	9.49	6.70	6.92	6.47	6.05	6.04	6.05	5.88	5.74	5.91	6.04
South Africa	6.03	12.75	14.15	16.06	17.13	17.25	17.25	17.25	17.25	17.25	18.06
Argentina	70 84	84.93	155.32	178.30	138.61	128.53	128.52	161.88	161.88	161.88	194.56
Brazil	62.71	103.74	150.42	184.69	224.27	295.48	268.44	217.98	198.78	226.75	283.79
Hong Kong	14.05	10.75	9.13	13.90	7.25	3.31	7.32	9.00	11.00	13.00	23.40
Korea	14.82	14.40	13.84	11.40	11.30	10.50	10.00	11.70	11.90	11.70	11.90
Philippines	15.70	14.70	16.12	31.18	25.52	21.76	9.99	17.93	33.17	40.17	n.a.
Singapore	10.23	3.96	11.45	7.05	6.92	6.83	7.64	8.13	7.82	6.80	7.67

Treasury bill rates

bond equivalent yields, at or near end of month

	1980	1981	1982	1983	1984						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	14.87	11.90	8.15	9.28	9.20	9.48	10.09	10.02	10.13	10.29	10.67
Canada	17.01	14.41	9.80	9.71	9.73	9.79	10.53	10.59	11.29	12.11	12.73
Belgium	12.75	16.00	12.25	10.85	10.85	12.25	12.25	11.75	11.75	11.75	11.75
Ireland	12.84	17.35	14.70	11.63	11.80	12.16	12.59	12.35	12.10	12.08	13.23
Italy	16.87	21.36	19.11	16.95	15.74	15.81	15.61	15.45	14.99	n.a.	n.a.
Netherlands	8.00	9.75	5.62	5.63	5.75	6.12	5.88	5.38	5.63	5.88	5.75
Spain	n.a.	n.a.	15.28	14.46	13.61	13.66	13.20	12.64	12.04	11.17	10.30
Sweden	n.a.	n.a.	12.90	11.75	11.10	11.15	10.80	10.99	11.83	14.20	14.12
United Kingdom	13.45	15.31	9.90	9.08	9.08	9.08	8.59	8.59	9.99	9.08	11.77
Australia	12.17	13.27	9.39	8.54	9.43	10.35	13.11	11.89	11.81	11.24	10.60
Japan	5.93	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	11.25	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
South Africa	6.31	14.55	14.62	18.43	18.55	18.57	18.57	18.64	18.64	18.44	19.69
Brazil	65.87	92.62	115.40	179.15	179.15	179.15	179.15	179.15	179.15	179.15	179.15
Mexico	27.73	33.33	57.44	53.78	53.02	50.32	46.16	46.63	51.56	n.a.	n.a.
Philippines	12.70	13.22	14.54	15.99	16.27	17.01	17.25	17.61	20.81	28.53	n.a.
Singapore	6.77	3.03	2.74	2.59	2.67	2.65	2.66	2.87	3.00	3.01	3.00

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1980	1981	1982	1983	1984						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	17.62	12.78	8.81	9.75	9.36	9.68	10.30	10.50	10.94	11.63	11.36
Canada	17.50	15.25	9.95	9.87	9.85	9.95	10.70	10.75	11.55	12.50	13.05
Belgium	13.10	16.00	12.35	11.00	11.00	12.50	12.35	11.90	11.90	11.90	11.90
France	11.56	15.25	12.75	12.19	12.25	12.54	12.56	12.31	12.25	12.06	11.63
Germany	10.20	10.50	6.20	6.30	6.10	5.85	5.80	5.70	6.25	6.10	6.05
Ireland	13.62	18.50	15.75	12.19	12.25	12.56	13.00	12.88	12.75	12.50	13.75
Italy	17.37	21.00	19.00	17.88	17.88	17.00	17.25	17.25	16.75	16.63	16.63
Netherlands	9.37	11.00	5.25	6.00	5.94	6.00	6.06	5.88	6.13	6.19	6.44
Portugal	11.00	13.80	15.04	24.11	24.06	23.79	23.99	24.04	24.00	25.25	24.65
Spain	17.40	15.52	16.55	18.48	17.30	18.30	16.42	15.07	14.66	13.45	12.91
Switzerland	7.50	10.12	3.87	3.87	3.62	3.75	3.94	3.88	4.25	4.50	4.88
United Kingdom	14.75	15.69	10.50	9.31	9.37	9.21	8.88	8.81	9.75	9.44	12.31
Australia	13.00	16.00	10.65	9.50	11.00	13.00	13.55	14.20	13.55	12.70	12.50
Japan	9.80	6.30	6.80	6.42	6.30	6.40	6.40	6.20	6.35	6.32	6.33
New Zealand	14.25	16.05	16.75	12.10	13.85	15.00	14.75	15.00	17.00	17.00	16.50
South Africa	7.12	15.47	15.26	19.12	19.07	19.01	18.30	19.07	18.00	18.74	20.78
Chile	26.79	34.54	71.44	22.42	19.56	14.03	11.35	18.16	18.16	18.16	19.56
Hong Kong	17.69	14.18	10.13	12.84	11.37	7.87	7.90	9.93	12.38	13.13	17.06
Indonesia	12.54	14.48	18.50	19.50	19.00	20.50	19.50	18.50	19.00	20.00	21.00
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.41	9.50	8.50	9.80	9.47	8.51	8.95	9.10	9.20	9.70	10.20
Philippines	14.99	17.70	15.96	15.61	16.08	17.41	17.14	15.83	26.51	17.93	n.a.
Singapore	14.12	7.81	8.69	8.44	7.75	7.75	8.50	8.63	9.13	9.00	9.06
Taiwan	14.49	10.94	9.94	7.65	9.22	9.42	7.81	7.31	6.15	7.77	7.27
Thailand	16.55	14.29	12.25	16.00	16.50	17.00	15.50	13.50	14.00	13.50	13.50

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983	1984						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	16.25	12.62	8.25	9.70	9.40	9.77	10.35	10.50	11.50	11.70	11.38
Canada	17.00	15.20	9.85	9.82	9.80	9.90	10.65	10.70	11.50	12.45	13.00
Austria	11.25	9.63	6.25	6.50	6.50	6.25	6.44	6.56	6.88	6.88	6.88
Belgium	12.63	15.50	12.25	11.25	10.87	12.37	11.75	11.50	11.88	12.50	11.63
Denmark	10.00	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	11.25	9.16	8.24	7.66	7.72	7.76	7.76	7.76	7.55	7.55	7.50
Germany	8.00	9.50	6.00	5.90	5.65	5.40	5.35	5.35	5.65	5.60	5.55
Ireland	13.62	18.38	15.25	11.75	11.87	12.37	12.63	12.50	12.50	12.25	13.13
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	11.64	11.64	11.64
Netherlands	9.50	11.00	5.37	6.13	5.94	6.00	6.06	5.75	6.00	6.13	6.31
Norway	11.00	12.75	13.50	12.75	13.00	12.50	12.75	12.75	12.50	12.50	12.25
Portugal	12.00	14.00	15.00	21.50	21.50	21.50	21.50	21.50	21.50	28.00	28.00
Spain	4.50	11.78	12.53	12.62	12.49	12.52	12.35	12.64	12.49	n.a.	n.a.
Sweden	13.20	12.65	12.15	11.70	11.00	11.10	10.65	10.65	11.25	13.65	13.70
Switzerland	7.50	8.75	3.00	3.50	3.25	3.25	3.00	3.00	3.25	3.25	3.25
United Kingdom	14.87	15.69	10.31	9.31	9.37	9.25	8.88	8.91	9.94	9.44	12.25
Australia	12.71	15.65	10.20	10.40	11.25	12.20	13.13	13.36	13.43	12.80	12.28
Japan	9.00	6.50	7.00	6.50	6.52	6.63	6.50	6.35	6.50	6.45	6.47
New Zealand	13.50	15.50	16.50	11.50	13.75	10.00	10.00	14.75	16.50	15.00	15.00
South Africa	7.87	14.75	15.25	20.13	19.45	18.88	19.38	18.88	18.78	18.65	20.50
Argentina	72.00	86.76	103.42	176.41	139.91	121.66	121.66	158.17	158.17	158.17	188.58
Brazil	54.00	110.05	21.00	23.00	26.00	25.00	23.00	19.00	22.00	22.00	20.00
Chile	39.45	36.87	57.72	22.28	19.74	12.95	11.09	18.16	18.16	18.16	19.56
Hong Kong	13.00	12.50	7.50	9.00	7.00	5.50	5.50	8.00	9.50	12.50	12.50
Korea	14.82	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	8.60	10.00	8.40	7.75	7.75	7.75	7.83	7.83	8.70	8.83	8.88
Mexico	26.15	31.82	52.54	54.70	53.86	51.21	47.63	47.30	49.00	n.a.	n.a.
Philippines	14.00	13.35	14.10	14.96	14.33	15.57	15.37	15.30	15.92	20.83	n.a.
Singapore	13.19	7.50	8.25	7.44	7.13	7.19	7.69	8.01	8.38	8.19	8.19
Taiwan	10.25	10.75	7.50	7.00	7.00	7.00	7.00	7.00	6.75	6.75	6.75
Thailand	9.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	16.00	14.75	15.50	12.00	11.50	11.50	11.00	11.50	12.00	12.00	12.50

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983	1984						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	11.46	14.33	10.61	12.00	11.72	12.13	12.49	12.79	13.58	13.75	12.97
Canada	12.69	15.27	11.69	12.02	11.92	12.40	13.06	13.31	13.93	13.81	13.41
Austria	9.62	10.37	8.81	8.02	7.96	7.88	7.88	7.94	7.99	8.06	8.09
Belgium	13.04	13.99	12.66	11.89	11.97	12.35	12.20	12.08	12.19	12.13	12.05
Denmark	19.98	20.91	20.14	12.96	13.39	14.02	14.78	14.27	15.20	15.54	n.a.
Finland	10.42	10.98	10.64	11.16	11.17	10.62	11.19	10.80	11.20	11.29	11.35
France	14.31	16.44	15.40	13.96	13.76	13.78	14.05	13.81	13.82	13.99	13.91
Germany	9.19	9.71	7.90	8.38	8.33	8.13	8.18	8.18	8.29	8.25	8.27
Ireland	15.63	18.28	14.54	14.25	13.94	14.16	14.08	14.14	14.49	14.58	14.89
Italy	16.23	21.39	19.70	17.69	16.91	16.34	15.69	15.74	15.71	n.a.	n.a.
Netherlands	10.48	11.28	8.16	8.58	8.57	8.56	8.40	8.45	8.52	8.68	8.69
Norway	10.44	12.37	13.32	12.50	12.50	12.25	12.25	12.25	12.00	12.00	12.00
Portugal	17.19	17.39	16.63	22.11	21.19	21.57	21.97	22.37	21.82	21.90	n.a.
Spain	16.15	16.20	15.92	18.71	18.33	18.68	18.74	18.64	n.a.	n.a.	n.a.
Sweden	12.61	12.80	13.01	12.30	11.70	11.50	11.50	11.65	12.60	14.01	14.19
Switzerland	4.63	5.40	4.22	4.54	4.50	4.56	4.37	4.47	4.61	4.69	n.a.
United Kingdom	13.05	15.02	10.62	9.94	9.97	10.04	9.89	10.16	10.73	10.81	11.17
Australia	13.00	15.00	13.00	13.65	13.70	14.05	14.00	14.00	14.10	14.00	13.30
Japan	8.61	8.11	7.96	7.45	7.45	7.45	7.25	7.30	7.60	7.50	7.48
New Zealand	12.99	12.55	12.84	10.50	10.84	11.33	10.42	8.97	8.50	10.06	n.a.
South Africa	11.81	13.33	11.31	13.64	14.13	13.80	13.78	14.46	14.68	14.72	15.93
Philippines	13.20	13.01	13.64	14.47	14.42	14.61	13.67	18.47	18.45	19.04	n.a.
Venezuela	7.39	12.50	15.00	13.50	13.00	13.00	13.00	13.50	14.00	14.00	14.00

Commercial bank lending rates to prime borrowers

-at or near end of month

	1980	1981	1982	1983	1984						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	21.50	15.75	11.50	11.00	11.00	11.00	11.50	12.00	12.50	13.00	13.00
Canada	18.25	16.50	12.50	11.00	11.00	11.00	11.50	11.50	12.00	12.50	13.50
Austria	12.50	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	15.75	18.00	15.50	13.75	13.75	14.75	14.75	14.75	14.75	14.75	14.75
Denmark	13.75	15.00	14.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Finland	9.83	9.84	8.95	10.18	10.30	10.36	10.38	10.42	10.43	10.48	n.a.
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	14.50	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
Italy	20.50	22.50	20.75	18.75	18.50	18.50	17.50	17.50	17.00	17.00	17.00
Netherlands	10.75	12.00	6.25	7.00	6.75	6.75	6.75	6.50	6.50	6.50	6.75
Norway	12.50	13.75	14.50	13.50	13.63	13.75	13.30	13.30	12.75	13.00	12.75
Portugal	18.75	20.50	23.50	30.00	30.00	30.00	30.00	30.00	29.00	29.00	29.00
Spain	18.50	17.04	19.00	20.85	20.01	20.55	19.44	17.96	17.55	16.19	n.a.
Sweden	14.00	15.00	15.00	13.50	13.50	13.50	13.50	13.50	13.50	14.50	14.50
Switzerland	5.75	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.00	14.50	10.00	9.00	9.00	9.00	8.50	8.50	9.00	9.25	12.00
Australia	13.50	15.75	15.00	12.75	11.50	13.00	14.00	15.50	15.00	14.75	14.50
Japan	8.16	6.95	6.28	5.89	5.81	5.77	5.76	5.75	5.74	5.75	5.75
New Zealand	13.00	13.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
South Africa	9.50	17.00	18.00	20.00	20.00	20.00	20.50	20.50	20.50	20.50	22.00
Argentina	77.00	92.60	109.50	188.58	152.08	133.83	133.83	170.33	170.33	170.33	206.83
Brazil	120.10	152.40	23.81	24.00	24.00	24.00	24.00	23.00	26.00	26.00	22.50
Chile	49.55	61.43	85.19	35.11	31.43	22.75	21.26	34.35	33.04	32.30	32.30
Hong Kong	17.00	16.00	10.50	13.50	11.50	10.00	10.00	12.00	13.75	17.00	17.00
Indonesia	21.00	19.25	22.00	19.75	20.00	21.25	21.50	20.75	21.00	20.75	21.25
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	8.50	12.00	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.50	11.50
Mexico	24.25	31.81	46.12	56.44	55.95	55.16	53.11	51.10	50.12	50.38	50.69
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	22.00	22.00	24.00	24.00	n.a.
Singapore	13.60	11.83	9.33	8.98	9.05	9.03	9.20	9.63	9.98	10.08	10.10
Taiwan	16.20	15.25	10.75	10.25	10.25	10.25	10.25	10.25	10.00	10.00	10.00
Thailand	16.50	17.00	16.00	16.00	16.00	16.50	17.00	17.00	17.00	17.00	17.00
Venezuela	15.00	15.50	17.00	16.00	16.00	14.50	14.50	15.00	15.00	15.00	15.50

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983	1984						
	Dec	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
United States	13.00	15.50	11.75	12.63	12.38	12.88	13.25	13.88	13.58	14.50	13.38
Canada	13.53	16.18	12.74	12.89	12.78	13.27	13.84	14.13	14.59	14.69	13.91
France	15.23	17.33	15.91	14.06	13.96	14.28	14.37	14.23	13.88	13.77	13.77
Germany	9.50	10.50	8.20	8.30	8.30	8.00	8.00	8.00	8.00	8.00	8.00
Netherlands	10.71	11.03	7.80	8.51	8.44	8.39	8.26	8.28	8.35	8.43	8.49
Norway	11.24	13.36	14.13	13.25	13.25	13.00	13.00	13.00	12.75	12.75	12.75
Spain	14.82	14.76	17.10	19.84	20.19	20.69	21.90	22.54	22.06	21.63	21.47
Sweden	11.95	12.94	13.37	12.21	12.15	11.96	11.84	12.04	12.23	12.41	12.73
Switzerland	n.a.	n.a.	4.87	4.94	4.93	4.91	4.85	4.91	5.10	5.07	5.10
United Kingdom	14.21	16.65	12.34	11.57	11.52	11.61	11.29	11.48	12.11	12.69	13.06
Australia	14.25	16.50	15.00	13.50	14.00	14.50	14.50	n.a.	n.a.	n.a.	n.a.
Japan	8.60	7.70	7.55	7.09	7.05	7.04	6.92	6.89	7.16	7.13	7.09
Korea	28.20	26.90	15.90	14.20	14.30	14.00	13.60	13.00	13.20	13.70	14.00
Venezuela	16.15	17.00	18.00	18.00	18.00	17.50	17.50	17.50	18.00	18.00	18.00

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World Financial Markets

Morgan Guaranty Trust Company of New York

September 1984

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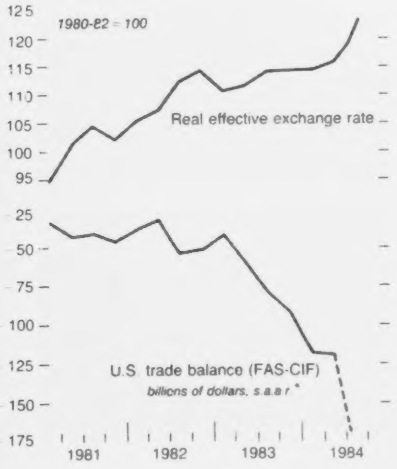
Chart 1

The dollar and the U.S. trade balance



* Quarterly averages except July

Strengthening U.S. competitiveness

U.S. industry is widely seen to be at a competitive disadvantage vis-à-vis foreign rivals, as is suggested by a trade deficit of over $125 billion at an annual rate during the first seven months of this year and by the steep appreciation of the dollar by 40% over the past four years (see Chart 1). There are related anxieties: shrunken exports and sharply increased import penetration, such that some industries do not share fully in the overall U.S. economic expansion; frustration that other nations — especially the newly industrializing countries (NICs) where wages are relatively low — exploit the U.S. market without reciprocal benefits to U.S. interests; eroding U.S. leadership in technology; and, at least until recently, poor productivity performance that has meant a decline in real wages for many working Americans.

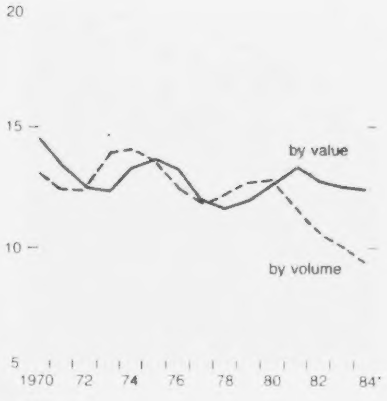
The solution most frequently offered for the competitiveness problems of U.S. industry calls for a basic shift in U.S. economic policies. The logic is straightforward: a speedy reduction of the budget deficit and a substantial easing of monetary policy would prompt a sharp fall in interest rates; in turn, the dollar would trend down to considerably lower levels in the exchange markets, eliminating the price and cost disadvantages of U.S. firms in the global marketplace. There are, however, risks in this approach. The financial markets might interpret the indicated easing of monetary policy as marking a renewed tolerance of inflation. If, as fiscal contraction progressed, interest rates failed to drop sufficiently, the U.S. economy would enter another period of stagflation, setting back growth prospects abroad. And if the competitive pressures on U.S. industry from a strong dollar were to lessen, so too would its incentives for productivity improvement.

A different prescription, advocated by those who believe the competitive problem evidences failure of the free market, relies on government direction of the economy. However, "industrial policy," as practiced in Europe, compounds economic rigidities and inhibits restructuring. In Japan, government has a mixed record in orchestrating technological dynamism. Moreover, previous U.S. experiments like the 1930s Reconstruction Finance Corporation proved largely ineffective, at least in peacetime. Since political allocation of capital looks unlikely to be efficient, the industrial policy debate has moved to the background.

Chart 2

U.S. share of world manufactures exports

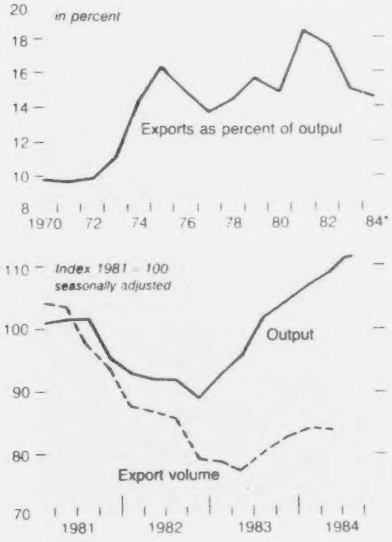
in percent



* Projected

Chart 3

Manufactures output and exports



* Jan-July

Issues of competitiveness, however, are still much to the fore. Twelve months ago, President Reagan established a Commission on Industrial Competitiveness,* which is scheduled to report early in 1985. The Commission is structuring its work under four broad headings: human resources, addressing education and labor productivity; capital resources, dealing with availability, taxation, and cost issues; research and development, including incentive and antitrust questions; and international trade and marketing, in which the objective is not simply a level playing field for U.S. producers in domestic and world markets, but also reform of U.S. trade policies. Constructive reform will promote, rather than impede, structural change — both here and abroad. Such reform is urgently needed in order to realize more fully the potential gains from international commerce in agriculture, manufactures, and services.

Productivity and trade policy initiatives can make vital contributions to national competitiveness and would certainly be good for living standards. Alone, however, they are not sufficient to bring down the trade deficit. Under floating exchange rates, microeconomic successes could drive up the dollar's exchange value, offsetting most of any competitive benefit to the trade balance. The U.S. trade deficit parallels the strength of investment in the U.S. economy amid a relative dearth of domestic savings. In much of the world, by contrast, investment is sluggish while savings are relatively ample. It would be possible to narrow the U.S. trade deficit by cutting back U.S. investment and depressing U.S. economic growth. However, that is a sure formula for worldwide stagnation. Far more constructive is a strategy for U.S. competitiveness that holds the U.S. economy strong, boosts savings at home, and fosters a more positive investment climate abroad — especially in Europe and Latin America. The return of investor confidence in prospects abroad will shift currency preferences, bringing the dollar down to more competitive levels than of late. Renewed confidence also will spur foreign economic growth, so that U.S. exporters will enjoy thriving markets once again.

Foreign trade and the U.S. economy

For twenty years following World War II, foreign trade had little bearing on the overall performance of the U.S. economy. Today, however, global integration means that foreign trade and foreign competition are crucial facts of life for U.S. industry. The competition is severe. Over the past four years, the U.S. share of world manufactures exports has fallen by more than 25% in volume terms (see Chart 2), although dollar appreciation has offset volume effects on the U.S. share in value terms. Dollar strength, global recession, and the LDC debt crisis led to a 25% decline in the volume of U.S. manufactures exports from early 1981 through mid-1983. The export decline was notably steeper than the 12.5% drop in domestic manufacturing output as a whole. This was an abrupt reversal of the previous trend, which had seen export sales grow from 10% of total manufacturing output in 1970 to over 18% in 1981 (see Chart 3). Moreover, in contrast to the dramatic output gains of most other domestic sectors since the end of

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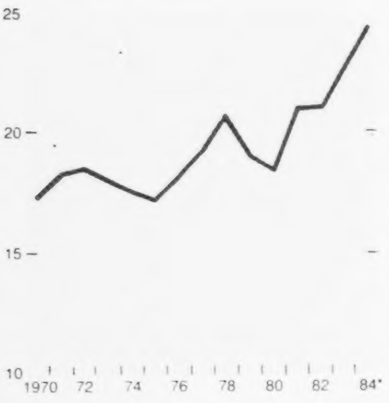
*The Commission is chaired by John Young, chief executive officer of Hewlett-Packard Company. Its twenty-nine members are drawn from industry, labor, finance, and the academic community. Among the Commissioners is Rimmer de Vries, senior vice president of Morgan Guaranty Trust Company, who is assisted in his work with the Commission by Derek Hargreaves, vice president of the bank. The views expressed in this article do not necessarily represent those of the President's Commission.

Chart 4

U.S. share of industrial countries' manufactures imports

by volume, in percent

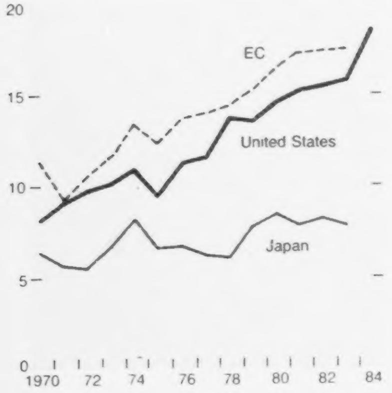


* Projected

Chart 5

*Import penetration in manufactures **

by value in percent



* Value of imports as percent of domestic market measured by the sum of domestic value added and imports
E C data excludes imports from within the Community

1982, the recovery in U.S. manufactures exports has been laggard and incomplete. As recently as the middle of this year, they remained 17% below their 1981 volume. Thus, notwithstanding a big one-month jump in export sales in July, domestically oriented industries have fared much better in the present economic expansion than have firms dependent on the world market.

At the same time, the U.S. market is a magnet for foreign producers, since it offers greater economies in sales and distribution than other single markets. Its demands often determine product design and development strategy of foreign firms. Whereas in 1970 the United States absorbed 17% of all manufactures imported by OECD countries, its share approached 23% in 1983 (see Chart 4). It must be sharply higher this year, in view of the 43% jump relative to last year in the value of U.S. manufactures imports during the first seven months of 1984. Moreover, the import share of the U.S. domestic market has more than doubled since 1970, from 8% to a little under 19% at present. Almost three points of the increase have occurred just in this past year. Though exceptionally rapid in the case of the United States, rising import penetration characterizes most mature industrial countries (see Chart 5). For example, the share of the EC internal market for manufactures claimed by suppliers outside the Community rose from 11% to 17% between 1970 and 1983. The corresponding increase in Japan was much less, from 6.4% to 8.6%.

The imbalance of U.S. trade with Japan and the East Asian NICs was no great problem while that trade remained small in the overall U.S. economic picture. However, the last ten years have witnessed a historic shift of U.S. trade orientation from the Atlantic to the Pacific (see Table 1). Back in 1973 over 30% of total U.S. trade, excluding trade with OPEC, was conducted with Western Europe, against 22% with Japan and other countries of the Far East. By now, Japan and the Far East claim over 29% of U.S. non-OPEC trade, three percentage points above the European share in the first seven months of 1984. The Pacific shift has occurred in both U.S. exports and imports, but is more prominent and sensitive with respect to U.S. imports — the more so as the technological sophistication of imports from Japan and the Asian NICs is rapidly increasing.

During the 1970s the principal U.S. response to a weakened competitive position was devaluation of the dollar. The policy succeeded in holding external imbalances within acceptable bounds, but was accompanied by poor performance of the domestic economy. Loose monetary policies, dollar depreciation, and supply shocks drove inflation above 13% in 1980. Real GNP growth sagged to 2.4% per annum during 1974-81. Unemployment rose considerably above the postwar norm. Real wages declined, especially in after-tax terms. Both capital formation and investment in research and development ebbed. And labor productivity slowed to a 0.8% annual rate of increase, from a 3% average for the earlier postwar years.

Today, the 1970s' pattern has been dramatically reversed. Domestic performance has greatly improved, but the trade deficit has widened to almost 3% of GNP. On the domestic front, industrial production has rebounded 23% over the past 21 months; manufacturing output is 9% above its previous peak; the unemployment rate is down from 10.7% to 7.5%; overall civilian employment is up 6%; and although employment in manufacturing remains 4% below its 1979 peak it is

Table 1

Orientation of U.S. trade

% of total trade (exports plus imports measured FAS), excluding trade with OPEC

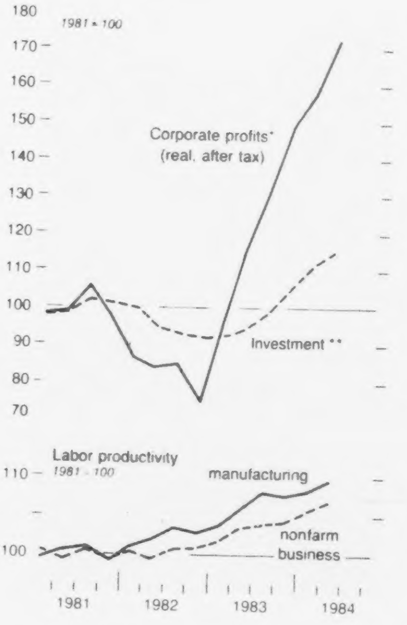
	1973	1981	Jan-Jul 1984
Western Europe	30.5	27.7	25.9
Canada	24.6	20.3	22.7
Japan	13.5	14.0	16.0
East and Southeast Asia*	8.4	10.8	13.3
Latin America**	10.2	13.7	11.2
Other	12.8	13.5	10.9
Total	100.0	100.0	100.0

*Excludes Japan and Indonesia.
**Excludes Ecuador and Venezuela.

Chart 6

U.S. corporate profits, investment and labor productivity

seasonally adjusted



* Domestic earnings of nonfinancial corporations adjusted to remove inventory profits and to put depreciation on a replacement cost basis

** Gross private nonresidential, volume terms

up over 9% from its trough. Moreover, high after-tax profits and expectations of attractive future returns have boosted business fixed investment by over 25% since the recession low (see Chart 6). This raises hopes that economic expansion will not be terminated prematurely by capacity constraints — thanks also to the availability of additional supply through imports. In all this, inflation has remained subdued, helped by dollar strength. The continued restraint of wages is especially encouraging. Earnings data and the waning of pattern bargaining — supported by labor's emphasis on job security and its increased awareness of nonunion and foreign competition — point to a new realism in wage demands. Moreover, with determined cost-cutting, productivity edged higher during the period of economic contraction, instead of displaying its customary decline. Since the end of the recession, productivity has risen at an annual rate of 3.4% — and, amid extraordinary simultaneous employment gains, by a surprisingly strong 4.7% in this year's second quarter.

The trade deficit, however, worries many and often is blamed on dollar strength. The causes in reality are more complex. For example, U.S. exports to Latin America plunged by over 40% after credit problems took hold in mid-1982. Despite some recovery in the last year and a half, the result has been a $20 billion downturn in the U.S. trade balance with the region since 1981 (see Table 2). Moreover, during January-July 1984 U.S. imports from the four principal NICs of the Far East ran 74% above 1981 levels, contributing $13 billion to the widening of the U.S. trade deficit. NIC competitive gains owe little to dollar strength vis-à-vis Japanese or European currencies, although this probably has helped Japanese exporters build market share in the Far East. NIC progress has more to do with advances in physical and technological capacity. Accordingly, dollar strength is not the principal source of the U.S. deficit with Latin America or Asian NICs.

Trade with other industrial countries has contributed $64 billion to the overall U.S. trade balance deterioration since 1981. U.S. exports to OECD partners have yet to exceed their 1981 nominal level, while imports have soared. Interestingly, the U.S. bilateral deficit with Japan has widened only $17 billion since 1981, compared with $40 billion vis-à-vis Canada and Western Europe combined. Up to a point, these disparities reflect Japan's "voluntary" export restraints, while U.S. exports have suffered from European protectionism. The trade disparities also mirror economic growth differentials: U.S. real GNP climbed 8.5% from 1981 through second-quarter 1984, less than Japan's 11% gain, but more than triple the growth achieved either in Europe or Canada (see Chart 7).

U.S. economic growth thus has outpaced expansion in its industrial partners by over 1% per annum since 1981, a striking turnaround from the 1970s when U.S. growth lagged partner growth by more than 0.5% per annum. As a result, the growth gap reversal has worsened the U.S. trade balance with OECD partners by as much as $30 billion since 1981.

Trade deterioration has not been confined to manufactures. This year the U.S. surplus in agriculture and raw materials may be little more than $13 billion, barely half the surplus recorded in 1981 (see Table 3). Dollar appreciation has depressed agricultural prices. More important has been the damage inflicted on the dominant U.S. position in world food trade by the European Community's Common Agricultural Policy — not to mention the conse-

Table 2

U.S. trade balances by area

exports measured FAS, imports measured CIF, billions of dollars, seasonally adjusted annual rates

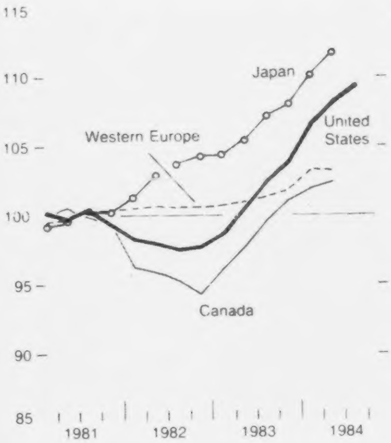
	1979	1981	Jan-Jul 1984
Industrial countries*	—8.8	—10.5	—72.0
Canada	—5.9	—7.3	—19.5
Japan	—0.6	—18.1	—36.1
Western Europe	9.9	10.9	—17.8
Developing countries	—36.4	—33.4	—55.1
OPEC**	—29.0	—30.3	—14.4
Non-OPEC	—7.4	—3.1	—40.7
East and Southeast Asia	—6.0	—8.4	—25.3
Major NICs***	—5.4	—7.0	—21.1
Latin America	1.8	6.0	—14.6
Socialist countries	4.8	4.2	0.5
Total	—40.4	—39.7	—126.6

*Includes unallocated and statistical discrepancy.
**Not seasonally adjusted.
***Hong Kong, Korea, Singapore, and Taiwan not seasonally adjusted.

Chart 7

Real GNP

indices, 1981 = 100



quences of U.S. embargoes in the 1970s that promoted development of alternative supply sources. Likewise, among services, the $32 billion U.S. surplus recorded in 1979 on net income from direct investment fell to $14 billion in 1983. The decline was traceable partly to the translation effects of dollar strength but was compounded by low profits and protracted recession abroad, in contrast with fast-rising profits in the United States.

In sum, little more than a third of the overall downturn in the U.S. trade or current account position can be ascribed to dollar strength. Roughly another third results from laggard economic performance in most other industrial countries, while the remainder stems from the financial problems of Latin America and from the increasing competitiveness of the NICs. Since the trade deficit has these multiple causes, it would not be wise to look solely to dollar depreciation for the remedy. To achieve a major narrowing of the deficit, depreciation would have to be very drastic — on a scale that would be only too likely to provoke a new surge in inflation. The wiser strategy is to build competitiveness through microeconomic reforms that further boost employment and productivity; by overhaul of U.S. trade policies; and by encouragement of policies abroad that promote robust economic growth in U.S. export markets.

U.S. trade deficits, jobs, and productivity

Despite the dramatic gains in U.S. employment during this economic expansion, the unemployment rate remains high by the standards of the 1950s and 1960s. In the public debate, the widening trade deficit usually takes much of the blame. It is said to be responsible for as many as three million lost jobs. That figure may not be far off the mark as a measure of employment adjustment within the export and import-competing sectors of the domestic economy, but it is misleading to claim that wiping out the trade deficit would restore those jobs.

There is a basic difficulty in the trade deficit/job loss argument. Since late 1982, U.S. domestic demand has surged ahead by 13.5%, of which something over two percentage points were met by the increase in the trade deficit (see Chart 8). Some portray this spillover of domestic demand to the outside world via the trade deficit as having held down domestic output and employment. That might have been true while the economy was in deep recession. But by now, without the relief from the external sector, vibrant economic expansion would surely intensify inflationary pressures. Domestic demand would have to be cut back — most likely by still higher interest rates that would curtail jobs in housing, business investment, and the production of consumer durables.

The trade deficit shifts U.S. jobs away from the export and import-competing sectors and toward those activities that are less exposed to international competition, especially toward services. The net effect of the job shift is far from clear and may not harm the long-term national interest. Tolerance of the trade deficit and dollar strength keeps up the pressure on domestic industries to raise productivity and restrain cost increases. Moreover, trade pressures speed up the replacement of outmoded industries by advanced enterprises that are the sine qua non for faster economic growth. Once the trade deficit narrows, the employment drift away from the trade-related sector will probably slow or reverse. Even reversal, however, would be unlikely to bring

Table 3

U.S. trade and current accounts

billions of dollars, seasonally adjusted annual rates

	1979	*1981*	*Jan-Jul 1984*
Customs data, CIF valuation			
Merchandise trade balance	—40.4	—39.7	—126.6
Agriculture and raw materials	15.9	23.4	13.0
Fuels	—61.5	—74.1	—55.7
Manufactures	5.2	11.0	—83.9
*Capital goods**	32.0	41.7	9.6
*Auto vehicles and parts**	—10.1	—12.3	—36.2
*Consumer goods**	—19.4	—19.7	—47.8

	1979	*1981*	*First half 1984*
Balance of payments basis			
Merchandise exports	184.5	237.1	217.1
Merchandise imports	212.0	265.1	320.2
Trade balance	—27.5	—28.0	--103.1
Net services and transfers	26.6	34.3	14.9
Direct investment income	31.8	28.5	15.8
Other investment income	—0.6	2.0	7.0
Travel	—1.0	0.2	—3.6
Other services	2.0	10.4	4.2
Transfers	—5.6	—6.8	—8.5
Current account balance	—1.0	1.9	—88.2

*Estimated CIF valuation, not seasonally adjusted.

back the old jobs. Instead, different jobs will open up in the trade sector of the future. Thus, actions on the trade front are unlikely to solve the U.S. unemployment problem.

Nor does the solution lie in stepped-up government intervention in the labor market. Public-sector job programs have a poor record in creating productive employment. Equally unpromising is the approach adopted in Europe. There, with the partial exception of Britain since the late 1970s, the stress has been placed on reduction in the workweek, work sharing, "employment protection" legislation, and incentives for early retirement. Employment results have been generally dismal, with no net job gains in Europe for over a decade despite sharp currency depreciation and more balanced trade positions than the United States in the recent years (see Chart 9).

Economic expansion is the one sure way to create jobs. Yet, it is widely feared that expansion that leads to a substantial further fall in unemployment will soon rekindle inflation. Heavy unemployment is not, however, the inevitable trade-off for price stability: in the 1950s, U.S. inflation was minimal while the unemployment rate averaged 4.5%. The key to enduring employment expansion lies with better-functioning labor markets and sustained realism in wage bargaining. On the latter score there are encouraging pointers — labor settlements, for example, that provide for lower wage scales for new hires and which can therefore support greater employment.

Further employment gains should be obtainable from relaxation of such government-imposed wage rigidities as minimum-wage legislation and the Davis-Bacon "prevailing wage" requirements in federal construction contracts. Also helpful would be additional incentives for private-sector training and reform of unemployment insurance to emphasize reemployment. Finally, labor compensation geared to output and profits — perhaps along the lines of the Japanese bonus system — can help stabilize employment over the economic cycle. Together with employee involvement schemes, such as are being pioneered right now in the auto industry, bonus plans also encourage worker collaboration with management in boosting productivity.

There are grounds for optimism on the U.S. productivity outlook: sustained containment of inflation will enable U.S. industry to focus its energies on development of new products and technological innovation, rather than on short-term financial gain; soft or stable energy prices have positive implications for the productivity of labor and capital; the labor force is gaining in work experience; and business investment is being stimulated by reduced capital gains taxes, generous depreciation schedules, and the tax-credit-assisted snapback in research and development.

It is the major objective of the Commission on Industrial Competitiveness that these positive conditions be reinforced. The government has to live up to its key funding responsibilities for basic research and should review anti-trust impediments to cooperative research in the private sector, especially where the research has only indirect promise of commercial payoff.

Additional savings incentives and tax reforms are needed to correct the recognized bias of the U.S. tax system favoring consumption against saving, for example, through deductibility of consumer interest payments. Such deductibility raises the level of pre-tax interest rates needed to achieve any given degree of overall credit constraint and thereby increases the cost of capital to U.S. industry.

Chart 8

U.S. domestic and external demand

indices, 1981 = 100

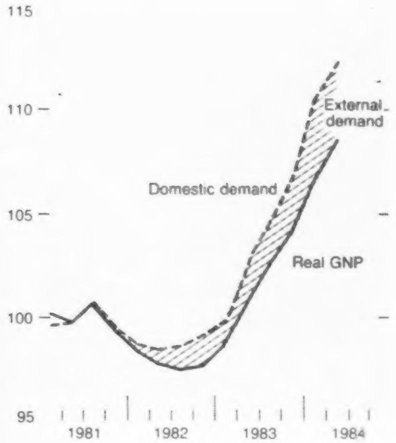
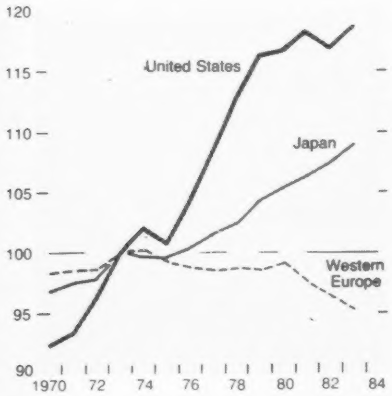


Chart 9

Employment

indices, 1973 = 100



U.S. industry would further benefit by gradual reduction of the budget deficit to release savings for the private sector. But it would be counterproductive to undo supply-side tax cuts in the name of deficit reduction since they are crucial incentives for business investment and technological advance. There is, in fact, ample scope for improvements in the business tax code, notably to provide rational allowance for inflation and to even out its extremely unequal incidence on different classes of investment. The existing revenue code, moreover, favors or excuses from taxation myriad special classes of income or outlay. Elimination of such favors — even where, taken in isolation, they serve accepted goals — would help narrow the deficit and, at the same time, permit another major reduction in marginal tax rates.

Further deregulation also can make a major contribution to U.S. competitiveness via savings in financing and other costs faced by U.S. industry. In the nonfinancial field, there are savings yet to be won through deregulation of railroads, trucking, and some professional and public services. Significant efficiency gains may be realized, for example, through private contracting for state and local public services. In the financial arena, new technology and the evolution of market needs have rendered obsolete the regulatory strictures and structures that are the legacy of the Great Depression. Much piecemeal liberalization has been accomplished since the 1960s. But momentum for further deregulation faded following Continental Illinois' difficulties, despite the illogic of blaming problem loans on deregulation. As the issue is rejoined, it should be remembered that much of the remaining segmentation in the U.S. financial system serves only to shelter inefficiency and to hobble U.S. institutions that must compete in global capital markets.

Overhaul of trade policies

The rise of new industrial powers and the disquieting trend in the U.S. trade deficit call for basic overhaul of the nation's trade policies. The postwar trading system was designed primarily to govern the international commerce of the United States and Europe, whose philosophies of economic management had much in common. Even so, few governments felt able to apply free-trade principles to agriculture, while services were deemed neither important nor suitable for liberalization. Accordingly, the General Agreement on Tariffs and Trade (GATT) and successive multilateral negotiations in the 1960s and 1970s were devoted largely to liberalization of trade in manufactures.

Today, interests have changed. The United States looks not only to Europe in its external commerce and security interests, but also to Japan, the Asian NICs, and Latin America. In addition, good behavior in international trade matters is fast disappearing. Through state enterprise and intervention, governments unfairly favor their domestic industries. Agricultural protection and overproduction are widespread and embitter trade relations among the major nations. And the omission of service activities from GATT rules is inconsistent with their growing predominance in mature industrial economies; their omission is a particular handicap to the United States, whose export earnings from business-related services are exceptionally low in relation to GNP despite the well-documented vigor of this sector in the domestic economy.

Moreover, during the past decade, U.S. trade policy decisions have developed a destructive drift: the United States now is fully as protectionist concerning manufactures imports as is the European Community. Both acknowledge protecting about one-third of their domestic industries. That is a much higher proportion than is officially the case in Japan. There, however, unofficial barriers help keep import penetration low.

The import relief remedies applied in recent years by the United States and others, have been very costly in economic terms. At one time, remedies usually took the form of tariffs. These were visible, openly debated, and collected revenue for the government. Nowadays, import restriction often is by quota or "voluntary" restraints on the part of foreign exporters. The latter arrangements — limiting Japanese autos, for example, and now to be applied more extensively to steel — are negotiated outside any statutory framework. Either form of quantitative limit alleviates adjustment pressures on the protected party; and the possession of access rights under quantitative restraints confers windfall benefits on foreign exporters and their distributors. These unintended beneficiaries in turn acquire a stake in long-term protection. Another failing of quantitative controls is their potentially adverse impact on intended beneficiaries. The "protected" firms take the full force of any downturn in demand that may occur for cyclical or structural reasons, whereas foreign suppliers are little affected unless the controls are further tightened. Tariff protection, by contrast, ensures that domestic and foreign suppliers share the burden of any decline in demand and also helps the domestic group rebuild market share if and when it regains competitiveness.

The sharp increase in import penetration of the U.S. market has tended to concentrate the actions of lobbyists and policymakers on containment of imports, although the protectionist course conflicts with the deeply held beliefs of the Administration. Attempts to rally the opposing U.S. consumer and exporting interests have failed to stem decisively the erosion of a constructive U.S. trade posture.

Enlightened U.S. policy must start from the fundamental objective, not of curtailing benefits, but of increasing the nation's gains from international trade. Accordingly, reform of U.S. trade law should not seek to close off the U.S. market to low-cost foreign suppliers. Their penetration of the U.S. domestic market is not exceptionally high by international standards. It should logically increase with the economic development and industrialization of Asian and Latin American countries that is a long-standing goal of U.S. foreign policy.

The case for pursuing maximum economic gains from trade cannot always be expected to override short-term considerations of political expedience. When protection must be granted, it is vital it be convincingly temporary. At present there is no deterrent to demands for increasing barriers to imports or repeated renewals of relief. The positive approach would be to toughen injury standards and to require formal appraisal of consequences to users and consumers of any relief that may be recommended. Indeed, for repeat petitions, the injury test should be replaced by a requirement that net benefit to the nation be demonstrated from continued protection. Introduction of a strong concept of net benefit would be a giant step forward in U.S. trade law. A start also needs to be made on the conversion of quotas and voluntary restraints into tariffs, whose proceeds could be earmarked in whole or in part for adjustment assistance.

Adjustment should be a basic

condition for protection. An effective program usually involves concessions by stockholders, creditors, and labor. As is evident in the thinking of the U.S. International Trade Commission in its recent recommendation on the steel industry, wage concessions are particularly necessary where wage levels stand far in excess of competitive rates. More questionable is any automatic conditioning of protection upon an industry's commitment to modernize. Time changes the mix of industries and firms that are or can become competitive: modernization requirements may amount to sending good money after bad. Facilitating the orderly phase-down of troubled firms and the transition of their workforce to alternative employment then becomes the rational aim of adjustment. That may well be the case for some firms in the domestic textile industry, where the Multi Fiber Agreement is proving unworkable. The agreement involves immense economic costs for consumers and is more than a minor irritant in North-South relations. Of course, any new adjustment assistance program should not simply be unemployment compensation by another name. Rather, it should rigorously emphasize worker retraining and relocation.

Correcting the present defensiveness of U.S. trade policy requires restoration of a dynamic prospect for U.S. exports. Export promotion efforts should concentrate on lessening information costs and administrative impediments to those U.S. firms that possess unexploited comparative advantage in the world market. In that light, export promotion via tax breaks or subsidies to U.S. exporters is costly and not reliably effective, although it can sometimes force elimination of foreign subsidies. Greater payoffs can be achieved by scrapping those controls on exports that are ineffective for national security or foreign policy objectives. In the application of controls and embargoes, there is particular need for realism about military criticality and rival supplier capability in high technology, where the extraterritorial reach of U.S. controls alienates foreign governments to the detriment of U.S. commercial interests.

The United States must mount a coherent assault upon unfair practices by foreign competitors. These practices include the diversion into the U.S. market of products excluded from others; the assertion of local-content requirements abroad; counterfeiting and commercial espionage; and the abuse of the special advantages that nonmarket economies, nationalized industries, and government-favored firms derive from nationalistic public procurement policies or from subsidized credit, labor, and materials. Particularly threatening, in the eyes of U.S. industry, is the foreign targeting of high technology.

There are issues to be resolved, not only on manufactures, but also concerning agricultural protection and barriers to trade in services. Here, the obstacles to trade are principally subsidies, quantitative restrictions, and regulations that lack clarity. With respect to services, it is encouraging that, under OECD auspices, considerable progress now is being made by the major industrial countries to define the conceptual issues and to identify the important barriers to trade. Services liberalization also is of interest to some LDCs — for example, India and Korea in construction engineering and Singapore in the financial sector.

For most developing countries, the primary objective is to secure access to industrial-country markets in order that export-oriented development strategies can work. These strategies rest upon the LDCs' comparative advantage in light manufactures and some basic industrial products. The mature industrial countries, however, will not accept still further specialization in high technology, communication, and service activities unless the LDCs offer meaningful concessions of their own. They will be expected to open their markets to advanced industrial products and foreign technology. They also must accede to an explicit code of conduct governing private direct investment and associated domestic content and export requirements. In particular, rapidly advancing NICs will have to forego their existing exemption from certain GATT obligations on the outdated claim of balance of payments need. "Graduation" and its attendant responsibilities cannot be shirked indefinitely if the NICs want to retain access to markets in the older industrial countries.

Reversing the worldwide tide of protectionism will take determined U.S. leadership. That is being brought to bear in several directions: for example, in negotiations toward a free-trade agreement with Israel; the suggestion of a more limited arrangement with Canada; and talk of a wider Pacific Basin opening, to include Japan, the Asian NICs, and Mexico, as well as Canada. Bilateral, regional, or sectoral approaches, however, are in principle discriminatory. Sooner or later, there is no adequate substitute for global negotiations, in particular to get Europe fully involved. The United States and Japan pressed the need for such global trade talks at this year's economic summit in London. Discussion has continued in less structured settings. Representatives from both the major industrial nations and from some of the NICs met this month in Rio de Janeiro to continue the process of defining negotiable issues and of broadening the spectrum of countries interested in liberalization. While still some way from a definite schedule or an agreed agenda, the U.S. administration is optimistic that multilateral negotiations can be formally launched during 1985. In total, the constructive statements of national leaders — especially President Reagan's address before this month's IMF/World Bank annual meetings — and the recent flurry of informal activity signify that in important ways the new trade round has already started.

In the effort to pry open markets abroad that are closed to U.S. exporters, the most potent bargaining tool available to the United States is the threat to limit foreign access to the vast U.S. market. Of course, the access card has to be played judiciously, because of the risk of provoking retaliation and the loss of all benefits from trade. But U.S. interests will continue to suffer unless offending competitors understand that unfair practices will be penalized. Trade has to be two-way, or it will wither.

Trade imbalance and global prosperity

The United States can do much to improve the competitive position of its industry by microeconomic reforms and overhaul of trade policy. Such steps, however, will not do much to rein back a trade deficit that is fundamentally a reflection of macroeconomic imbalances worldwide. Massive trade imbalances have been a feature of the world economy for over a decade: surpluses at various times for OPEC, the Netherlands, Switzerland, and Japan; and deficits most of the time for LDCs. In recent years financial concerns have prompted many countries facing trade deficits to curb them at the sacrifice of economic growth. The United States has wound up inheriting those deficits.

Table 4

The U.S. trade locomotive

	Exports to U.S.		*Exports to other countries,*
	1983, as % of country GNP	*% change,* Jan-Jul 1984*	*% change*, Jan 1984 to date***
Germany	1.9	39.8	—1.9
France	1.2	39.2	0.3
United Kingdom	2.7	20.5	1.4
Italy	1.5	46.3	—11.6
Canada	16.5	31.6	—1.3
Japan	3.6	45.9	6.3
Korea	9.5	47.3	15.5
Taiwan	22.5	45.7	16.9
Argentina	1.3	33.6	16.5
Brazil	2.4	57.3	14.7
Mexico	11.6	12.1	37.6

*From same period of 1983, in dollar terms.

**Trade data for the period Jan-Jul, except for Italy and Argentina (Jan-Jun), and Mexico (Jan-May).

Currently, the world economy exhibits massive imbalances not only in U.S. trade but also in the heavy unemployment and feeble economic growth of Europe and Latin America. It makes little sense to exacerbate these latter problems by choking back U.S. imports for the sake of quick reduction of the trade deficit. That would be a severely deflationary blow to the rest of the world. Right now, and for a considerable period ahead, the world at large is critically dependent on the continuing tonic provided by the U.S. trade deficit. The external spillover from U.S. domestic demand since 1981 is equivalent to almost 1.5% of total rest-of-world output. It thus constitutes a major fillip to flagging autonomous demand in foreign economies. Indeed, it supports a major fraction of the modest overall growth that Europe is experiencing (see Table 4). Similarly, exports to the United States help developing countries to shift from overdependence on foreign borrowing to export-based development. Should the U.S. economy falter before other industrial and developing countries are able and willing to pursue active growth policies, the world economic outlook would be bleak. The world needs a continuation of market-oriented, noninflationary growth policies in the United States, not stagflation.

Restoration of economic dynamism in Europe depends above all upon the development of a healthy business climate in which investment opportunities can stand comparison with the competing attractions of Asia and the United States. At present, Europe suffers heavy taxation, crippling regulation, inflexible labor costs, and barriers to mobility. These rigidities will not be overcome quickly, although some constructive first steps have been taken in Britain, France, and the Netherlands. Europe's economic woes are compounded by extreme fiscal austerity, notably in Germany. Europe has rightly lost faith in public spending as a growth stimulus. But its emphasis on curbing fiscal deficits is not a sufficient formula for energizing growth, since it presumes investment will substitute spontaneously and sufficiently for public and private consumption. However, even if European interest rates can be lowered through reduced fiscal deficits, profit potential looks inadequate to generate robust business investment. U.S. experience strongly suggests that, in fiscal matters, Europe's priority need is for incentive-oriented tax cuts, the most effective means to spur investment and employment.

Although Japan's economic growth has picked up this year, thanks mainly to strong exports and an investment upturn, Japan displays a long-standing excess of domestic savings over investment which seems intractable under existing priorities. Despite the very high personal savings rate and the decline in the business sector's propensity to invest in Japan since the early 1970s, the government persists with spending restraint to curb the budget deficit. This fiscal stance holds down Japan's domestic economic growth and breeds outsize trade surpluses that cannot be corrected by trade or financial liberalization alone. Yet it is far from true that Japan lacks worthwhile investment opportunities at home. Although its dynamism in technology and productivity is widely admired, Japan's physical infrastructure hardly matches its industrial prowess. The need for stepped-up investment in housing, roads, sewage systems, and environmental conservation is widely felt, but divides the ranks of the ruling Liberal Democratic party. Once priorities shift away from deficit containment and toward enhance-ment of the quality of life, Japan's economic performance should be stronger and better balanced, with less tendency toward chronic trade surpluses.

Growth in industrial countries is helpful but not sufficient for healthy growth in the developing countries, as is clear from the contrasting records of the Asian NICs and Latin America. Much has been accomplished in overcoming the crisis aspects of Latin America's debt troubles. The region's external adjustment has been remarkably fast, at first thanks to import compression and substitution but this year helped greatly by strong U.S. demand for Latin America's exports. The challenge now lies in getting Latin America's economic growth back up to a pace that will reverse its continuing declines in per capita incomes and employment. Growth will not be possible without the support of foreign creditors, but their ability to furnish new credit is strictly limited, especially on the part of capital-constrained commercial banks. Latin America's long-term growth potential is best pursued by domestic reforms to create a favorable climate for investment and exports. That would attract resources from abroad, including both repatriated flight capital and new capital inflows from foreign direct investors, the latter adding the bonus of modern technology.

In sum, the key U.S. export markets present an environment that for some time to come is more conducive to a widening U.S. trade deficit than to its narrowing, especially following the new surge of the dollar. Still, while world economic recovery remains patchy, it makes no sense at this time to jeopardize the crucial locomotive power of the United States. That is the big risk that is posed by unduly sudden or severe contraction of the federal budget deficit. If the dollar were then to fall sharply, the Federal Reserve would be caught between the risks of validating an uprush in inflation and those of throwing the U.S. economy into a nosedive. Besides, not only could severe deficit reduction fail to yield as much of a decline in U.S. interest rates as proponents assume, but also any parallel lowering of European interest rates could prove a disappointing stimulus to economic growth in Europe. There, as noted earlier, economic expansion is hamstrung by structural problems.

As economic expansion matures, however, inaction on the budget deficit also would prove unwise. The economy has finite resources, even with the addition of imports. Consequently, hard choices cannot be avoided.

Gradualism on the budget issue offers the best chance to keep the economy to a growth path that makes reasonably full use of capacity without excessive price and wage pressures. In this spirit, the recent down-payment package is an encouraging start. Another installment should be a first priority after the November election, with emphasis on holding military spending to the pace actually necessary for a strong defense; containing explosive costs in medicare and middle-class entitlement programs; and tax reform that enhances revenues by broadening of the base rather than by higher tax rates on personal incomes.

The overriding challenge for policymakers in the industrial countries is to sustain and strengthen their economic growth, without which there can be no solution either to the unemployment problem worldwide or the financing difficulties of the developing countries. Ideally, as Europe and Japan find themselves ready and able to pursue more expansionary policies, the United States will move to the less stimulative fiscal stance that will keep the

U.S. economy on course for a "soft landing." As investment opportunities brighten in Europe, Japan, and the developing countries, the present concentration of international capital flows into the United States will diminish and the U.S. trade deficit will narrow. With the shift of investor preferences, the dollar would be expected to give up some of the strength it has displayed in recent years — but not necessarily in the immediate future: in parts of the world where confidence has been lacking for some time, the rebuilding of a favorable investment climate will not be quickly accomplished. In the meantime, provided the United States espouses tax, savings, and productivity reforms along the lines of those recommended by the Commission on Industrial Competitiveness and also pushes forward its initiatives to open up the world trading system, U.S. industry will have the opportunity to rebuild competitiveness and become fully adapted to the rigors of the world marketplace.

Statistical appendix

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Information herein is from sources considered to be reliable but is furnished without responsibility on the part of Morgan Guaranty Trust Company.

Nominal effective exchange rates

Index numbers, 1980-82 average=100. Each index shows a currency's trade-weighted appreciation or depreciation measured against 15 other major currencies, using averages of daily noon spot exchange rates in New York and bilateral trade weights based on 1980 trade in manufactures. Annual figures are calendar year averages.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
Pre-June 1970 parities	114.6	114.4	69.0	116.4	111.1	66.2	226.2	147.5	80.6	91.1	82.1	143.2	51.3	113.0	92.3	119.6
Smithsonian central rates	103.1	121.9	77.2	116.7	109.8	68.9	220.9	146.7	80.6	92.3	82.9	142.7	53.2	110.8	90.9	117.6
1980	90.7	100.4	95.5	96.0	106.5	100.0	108.4	99.8	99.4	105.9	100.2	106.5	95.4	105.1	98.2	103.9
1981	99.5	100.2	105.8	104.0	100.4	97.2	98.8	102.1	98.9	101.8	97.1	99.4	98.3	99.2	100.1	103.3
1982	109.8	99.4	98.6	100.1	93.1	102.8	92.8	98.1	101.7	92.3	102.7	94.1	106.3	95.7	101.7	92.8
1983	114.2	100.8	107.8	92.0	87.3	107.6	90.3	91.6	103.6	90.0	105.0	78.4	111.5	96.4	99.4	82.2
1983																
September	116.7	101.3	107.1	92.2	85.6	106.9	88.9	93.8	103.3	88.8	104.2	76.7	112.4	94.9	100.9	82.6
October	114.8	101.0	110.7	93.5	85.4	108.0	88.6	92.2	103.8	88.7	105.0	76.0	113.2	95.2	100.8	82.3
November	116.5	100.9	110.7	94.8	85.1	107.1	88.3	92.8	103.2	88.4	104.4	75.9	112.8	94.6	100.9	82.7
December	118.0	100.4	112.1	94.2	84.7	106.8	88.0	91.8	102.8	88.2	104.1	75.8	113.8	94.0	99.5	83.1
1984																
January	119.1	100.5	113.3	95.5	84.1	106.5	87.6	91.5	102.6	87.7	103.7	76.3	113.8	93.6	99.2	83.4
February	117.3	100.2	111.9	97.3	84.7	108.0	87.0	91.4	103.5	88.3	104.3	77.1	112.2	94.0	99.0	82.9
March	115.4	98.0	114.7	97.2	85.3	109.0	87.2	89.8	104.2	89.0	105.0	77.2	111.7	94.6	98.7	83.5
April	116.7	97.5	115.7	95.1	85.2	108.6	87.3	88.9	104.1	89.0	104.8	78.1	111.3	94.0	98.9	83.7
May	119.5	96.8	114.6	95.1	84.6	107.7	86.9	89.1	103.8	88.8	104.4	78.4	110.9	93.6	99.1	83.6
June	120.2	96.2	113.3	93.0	84.9	108.2	87.0	88.6	104.2	88.9	104.6	78.0	110.1	93.8	99.1	83.4
July	124.2	95.4	110.8	90.3	84.6	107.7	87.3	87.7	104.1	89.3	104.0	77.3	107.9	93.7	97.4	84.4
August	124.0	97.0	111.4	91.9	84.3	107.3	86.6	87.9	103.8	89.3	103.8	76.6	108.8	93.6	97.1	84.6
August 3	124.7	96.6	110.5	91.0	84.3	107.3	87.1	88.1	103.9	89.3	103.6	77.1	107.5	93.4	97.1	84.5
10	124.5	96.7	111.2	91.6	84.2	107.1	87.1	88.2	103.8	89.1	103.7	77.0	108.0	93.5	97.3	84.6
17	123.9	96.8	111.6	91.6	84.4	107.3	86.6	88.2	103.7	89.3	103.9	76.5	108.9	93.5	97.1	84.4
24	123.6	97.1	111.7	92.8	84.3	107.4	86.4	87.6	103.8	89.7	103.7	76.5	109.4	93.7	97.1	84.6
31	123.7	97.3	111.9	92.2	84.4	107.3	86.3	87.6	103.7	89.5	103.6	76.4	109.5	93.7	97.1	84.9
September 7	125.6	97.0	111.4	91.6	83.9	106.7	86.5	87.3	103.7	89.4	103.3	76.7	108.7	93.6	97.4	85.3
14	126.8	96.6	111.6	92.0	83.5	106.2	86.2	87.9	103.3	89.1	103.0	76.9	108.9	93.2	97.4	85.4

Real effective exchange rates

Index numbers, 1980-82 average=100. Each index is the corresponding nominal effective exchange rate adjusted for differential inflation in wholesale prices of nonfood manufactures. Underlying price data are partly estimated. Index revisions reflect revised price information or, less frequently, adoption of new price indices to measure inflation in one or more countries.

	United States	Canada	Japan	Australia	France	Germany	Italy	United Kingdom	Austria	Belgium	Netherlands	Spain	Switzerland	Denmark	Norway	Sweden
1980	89.4	99.6	103.0	93.0	102.2	103.5	103.5	99.9	100.2	107.5	99.9	100.9	98.7	103.5	96.6	101.2
1981	100.6	100.0	104.6	102.7	100.1	97.3	98.7	102.3	99.1	100.3	97.6	99.4	98.7	99.2	100.9	102.1
1982	109.9	100.4	92.3	104.3	97.7	99.2	97.8	97.9	100.7	92.3	102.5	99.8	102.6	97.3	102.5	96.7
1983	112.7	103.1	96.6	100.0	95.9	99.3	100.1	92.0	101.6	92.1	101.8	90.5	105.3	98.8	101.3	91.5
1983																
September	114.1	104.4	94.9	101.0	95.1	98.3	99.5	94.4	100.6	90.8	101.1	89.5	105.7	97.7	103.3	92.5
October	113.2	103.3	97.4	102.3	95.5	98.9	99.7	92.5	101.4	90.8	101.0	89.1	105.9	98.4	102.6	92.4
November	114.4	103.2	97.4	104.0	95.4	97.7	100.0	93.3	100.8	90.8	100.2	89.6	105.8	96.6	102.4	93.3
December	115.5	103.0	98.5	103.8	95.5	97.3	99.9	92.1	100.4	90.3	99.7	90.5	106.4	95.6	101.5	94.1
1984																
January	116.1	103.6	99.1	105.4	94.3	96.7	100.3	91.9	102.1	89.8	100.4	91.7	106.0	95.3	101.3	95.1
February	114.1	103.4	97.7	107.4	95.5	97.7	100.0	91.9	102.9	90.0	101.2	93.0	104.3	96.5	101.5	94.7
March	111.9	101.7	99.9	107.3	96.4	98.5	100.6	90.7	103.7	90.5	101.6	93.9	103.9	96.2	101.0	95.7
April	113.0	101.4	100.4	105.2	96.6	98.0	101.2	89.8	103.1	90.1	101.4	95.5	103.2	95.5	101.0	95.6
May	115.9	100.4	99.1	105.4	96.4	97.1	101.2	90.3	102.5	89.6	101.0	96.2	101.9	95.6	101.8	95.8
June	116.6	99.7	97.7	103.5	97.3	97.2	101.4	89.6	103.0	89.5	101.4	95.6	101.2	97.2	101.3	95.5
July	120.2	99.2	95.3	100.6	97.3	96.6	102.1	89.0	102.5	89.5	100.9	95.2	98.9	96.8	99.3	96.5
August	120.0	100.9	95.6	102.7	97.4	96.1	101.7	89.3	102.0	89.2	100.7	94.6	99.3	97.1	98.7	96.8

Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

		1981	*1982*	*1983*	*1984*						
		Dec	*Dec*	*Dec*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jul*	*Aug*
Eurodollar	*overnight*	12.87	9.25	9.50	9.38	10.13	10.25	10.38	11.25	11.75	11.50
	one month	13.31	9.12	9.69	9.88	10.44	10.63	11.06	11.75	11.50	11.69
	three months	13.75	9.19	9.81	10.13	10.63	10.94	11.75	12.13	11.81	11.88
	six months	14.81	9.50	10.06	10.38	10.94	11.25	12.50	12.63	12.25	12.13
	twelve months	14.75	9.62	10.37	10.81	11.44	11.75	13.63	13.50	12.75	12.63
Euro-Canadian dollar	*one month*	15.37	10.00	9.12	9.63	10.00	10.00	10.69	11.75	12.44	12.13
	three months	15.37	10.00	9.50	9.81	10.38	10.50	11.38	12.13	12.75	12.13
	six months	16.37	10.13	9.75	10.00	10.69	10.94	12.31	12.69	13.06	12.38
	twelve months	16.37	10.25	10.00	10.38	11.19	11.44	13.38	13.50	13.25	12.63
Euro-French franc	*one month*	15.75	23.00	12.12	16.00	12.94	11.94	12.00	11.81	11.38	10.88
	three months	17.00	24.00	12.19	17.25	14.38	13.13	13.19	12.31	11.75	11.88
	six months	18.00	22.00	12.31	16.75	15.13	13.88	14.19	13.25	12.69	11.19
	twelve months	18.25	19.75	12.62	16.13	15.88	14.88	14.94	14.56	13.63	12.69
Euromark	*one month*	10.44	5.87	5.25	5.69	5.50	5.44	5.63	5.56	5.25	5.31
	three months	10.50	5.87	5.87	5.81	5.56	5.63	5.94	5.88	5.75	5.50
	six months	10.56	5.94	6.12	6.94	5.75	5.75	6.25	6.19	6.13	5.88
	twelve months	10.25	6.00	6.37	6.19	6.13	6.19	6.81	6.75	6.56	6.19
Euro-Dutch guilder	*one month*	10.75	5.12	5.81	5.94	6.06	5.75	5.94	5.94	6.13	6.06
	three months	10.75	5.19	6.00	6.00	6.06	5.94	6.13	6.13	6.38	6.25
	six months	10.75	5.38	6.25	6.06	6.19	6.06	6.88	6.44	6.69	6.56
	twelve months	10.75	5.63	6.37	6.44	6.50	6.44	6.94	6.94	6.88	6.81
Euro-Swiss franc	*one month*	8.87	2.81	3.37	3.44	3.50	3.31	3.94	4.19	4.81	4.50
	three months	9.25	3.25	3.75	3.63	3.63	3.63	4.06	4.44	4.88	4.69
	six months	9.25	3.44	3.94	3.88	3.81	3.94	4.44	4.56	5.06	4.81
	twelve months	8.50	3.44	3.94	4.13	4.13	4.19	4.75	4.75	5.06	5.00
Eurosterling	*one month*	15.37	10.56	9.12	9.13	8.75	8.56	8.94	8.81	12.25	10.75
	three months	15.69	10.44	9.31	9.19	8.88	8.81	9.81	9.44	12.25	10.69
	six months	15.69	10.31	9.50	9.31	9.06	9.06	10.44	9.94	12.19	10.63
	twelve months	15.37	10.31	9.81	9.50	9.31	9.38	10.94	10.56	12.13	10.75
Euroyen	*one month*	6.12	6.75	6.25	6.88	6.19	6.00	6.38	6.00	6.13	6.38
	three months	6.12	6.75	6.31	6.56	6.19	6.19	6.38	6.19	6.31	6.31
	six months	6.87	7.10	6.38	6.50	6.25	6.25	6.44	6.31	6.31	6.31
	twelve months	6.87	6.81	6.44	6.63	6.38	6.31	6.56	6.50	6.50	6.50
European currency unit	*one month*	14.63	12.44	8.63	9.00	10.00	8.81	9.00	9.00	9.31	9.06
	three months	14.75	12.31	9.06	9.31	10.00	9.06	9.38	9.31	9.63	9.31
	six months	15.00	12.00	9.44	9.63	10.00	9.56	9.88	9.81	10.06	9.94
	twelve months	14.56	11.19	9.63	9.94	10.13	10.00	10.25	10.25	10.31	10.25

International bond issues – by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	*1982*	*1983*	*1984*			*Jan-Aug*	
				Jun	*Jul*	*Aug*	*1984*	*1983*
Eurobonds	**31 616**	**51 645**	**48 501**	**4 991**	**4 232**	**7 637**	**46 808**	**31 345**
U.S. dollar	26 830	43 959	38 428	4 276	3 343	6 812	37 943	25 106
Canadian dollar	634	1 201	1 039	161	156	142	872	672
German mark	1 277	2 588	3 817	276	251	378	2 868	2 986
British pound	501	748	1 947	41	198	157	2 111	895
Japanese yen	368	374	212	43	—	—	348	148
European composite units	309	1 980	2 019	108	194	148	1 865	952
Other	1 697	795	1 039	86	90	—	801	586
Foreign bonds	**21 369**	**26 397**	**27 822**	**1 564**	**1 847**	**1 442**	**18 863**	**19 054**
U.S. dollar	7 552	5 946	4 545	19	150	100	3 537	3 265
German mark	1 310	2 952	2 671	110	201	—	1 219	1 929
Dutch guilder	481	956	1 053	48	94	92	748	748
British pound	746	1 214	811	117	89	85	918	324
Swiss franc	8 285	11 432	14 299	1 147	654	811	9 380	9 938
Japanese yen	2 457	3 418	3 772	106	638	350	2 771	2 541
Other	538	479	671	17	21	4	290	309
Total	**52 985**	**78 042**	**76 323**	**6 555**	**6 079**	**9 079**	**65 671**	**50 399**

International bond issues — by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	*1982*	*1983*	*1984*			*Jan-Aug*	
				Jun	*Jul*	*Aug*	*1984*	*1983*
Industrial countries	**40 861**	**63 062**	**60 303**	**6 168**	**4 892**	**7 627**	**56 790**	**39 462**
Australia	991	2 250	2 529	303	82	319	1 574	1 233
Austria	1 557	1 668	1 290	246	335	—	1 662	1 053
Belgium	527	211	1 116	400	—	—	750	474
Canada	10 648	11 979	7 487	455	298	327	4 444	4 413
Denmark	695	1 269	1 719	116	747	421	2 771	862
Finland	672	815	866	167	—	135	1 011	700
France	3 156	8 386	6 461	299	817	1 026	5 164	4 772
Germany	279	1 101	3 095	131	46	337	1 426	2 258
Ireland	517	625	959	37	—	300	564	290
Italy	1 108	2 214	1 565	225	—	610	1 496	481
Japan	6 928	8 397	13 977	1 884	1 293	1 168	13 521	10 002
Netherlands	630	894	935	—	—	—	677	676
New Zealand	1 107	1 375	645	32	144	—	619	455
Norway	530	832	624	100	18	75	560	471
Portugal	30	206	76	43	21	—	245	46
South Africa	92	374	548	139	—	76	703	397
Spain	444	747	1 470	—	70	—	772	737
Sweden	2 050	2 479	3 809	804	45	332	4 914	2 552
United Kingdom	1 408	1 201	1 398	—	237	63	2 336	778
United States	6 770	14 538	7 325	693	659	2 325	10 278	5 001
*Other**	722	1 501	2 409	94	80	113	1 303	1 811
Developing countries	**4 886**	**5 003**	**2 535**	**148**	**256**	**378**	**1 811**	**1 705**
Latin American countries	**3 658**	**2 480**	**71**	**19**	—	**46**	**96**	**71**
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Mexico	3 012	1 919	—	19	—	—	19	—
Panama	25	—	21	—	—	—	—	21
Venezuela	291	385	—	—	—	—	—	—
*Other***	25	50	50	—	—	46	77	50
Asian countries	**1 068**	**2 075**	**2 252**	**129**	**256**	**282**	**1 625**	**1 482**
Hong Kong	70	40	50	—	—	—	—	—
India	271	225	60	46	—	71	192	40
Indonesia	97	412	328	30	—	—	50	78
Korea	323	172	556	21	45	170	531	395
Malaysia	—	807	883	32	123	—	540	724
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	—	—	—	—
Thailand	93	63	265	—	46	41	270	205
Other	85	181	40	—	42	—	42	40
Middle Eastern and African countries	**160**	**448**	**212**	—	—	**50**	**90**	**152**
Egypt	—	75	—	—	—	—	40	—
Israel	117	200	135	—	—	—	—	135
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	—	—	50	50	17
Centrally planned countries	**75**	**65**	**75**	—	—	**50**	**50**	**75**
China	—	65	50	—	—	—	—	50
Hungary	20	—	—	—	—	—	—	—
*Other****	55	—	25	—	—	50	50	25
International organizations****	**7 163**	**9 912**	**13 410**	**239**	**831**	**1 024**	**6 880**	**9 157**
Total	**52 985**	**78 042**	**76 323**	**6 555**	**6 079**	**9 079**	**65 671**	**50 399**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1981	*1982*	*1983*	*1984*							
	Dec	*Dec*	*Dec*	*Jan*	*Feb*	*Mar*	*Apr*	*May*	*Jun*	*Jui*	*Aug*
United States companies											
Eurodollar	n.a.	11.16	11.59	11.43	11.77	12.28	12.53	13.33	13.27	12.70	11.97
Euromark	n.a.	7.24	7.34	7.34	7.26	7.24	7.29	7.55	7.48	7.74	7.40
Swiss franc	n.a.	5.61	5.73	5.58	5.61	5.63	5.59	5.85	5.69	5.68	5.60
European governments											
Eurodollar	n.a.	12.53	12.65	12.33	12.58	12.96	13.27	14.18	14.14	13.61	13.03
Euromark	n.a.	8.10	8.12	8.08	7.63	7.82	7.88	8.03	8.07	8.31	7.94
Swiss franc	n.a.	5.36	5.59	5.43	5.33	5.34	5.35	5.59	5.55	5.43	5.35
European currency unit	n.a.	n.a.	11.77	11.53	11.08	11.29	11.49	11.40	11.63	11.80	11.58

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	*1982*	*1983*	*1984*			*Jan-Aug*	
				Jun	*Jul*	*Aug*	*1984*	*1983*
Industrial countries	**86 022**	**42 571**	**38 742**	**8 706**	**5 799**	**2 359**	**58 587**	**22 216**
Australia	1 680	4 721	2 924	—	100	75	1 081	2 062
Belgium	360	1 172	883	—	—	—	—	83
Canada	4 112	3 838	967	—	750	—	1 772	200
Denmark	1 661	789	1 586	—	—	25	1 043	1 586
Finland	463	631	283	15	—	—	15	228
France	3 912	5 703	1 700	1 050	—	864	2 656	1 255
Greece	1 039	770	1 085	—	210	—	610	836
Ireland	1 361	401	764	—	71	—	71	621
Italy	6 030	3 757	2 980	36	436	105	1 706	1 893
Norway	713	1 769	1 236	—	—	—	24	576
Portugal	1 590	1 388	913	400	—	—	696	300
South Africa	287	1 479	752	—	40	10	360	702
Spain	3 242	1 849	3 041	144	100	50	1 911	2 179
Sweden	1 867	649	3 188	4 000	—	19	4 419	3 101
United Kingdom	747	1 635	1 328	168	911	39	2 852	954
United States	54 784	6 516	12 948	2 845	3 110	916	36 778	4 197
Yugoslavia	684	719	615	—	51	—	61	615
*Other**	1 490	4 785	1 549	48	20	256	2 532	828
Developing countries	**45 264**	**41 519**	**32 937**	**740**	**895**	**1 555**	**21 450**	**27 696**
Latin American countries	**30 152**	**26 719**	**15 406**	**120**	**291**	**405**	**12 265**	**14 681**
Argentina	2 534	1 565	1 750	—	—	—	—	1 750
Brazil	5 751	5 716	4 475	—	25	103	6 628	4 475
Chile	2 204	1 194	1 319	—	—	—	784	1 319
Colombia	1 030	741	549	—	—	200	404	310
Ecuador	934	815	431	—	—	80	80	431
Mexico	7 530	7 953	5 138	50	10	10	3 870	5 100
Peru	1 407	1 069	500	—	—	—	10	466
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	1 203	867	1 007	70	256	12	489	593
Asian countries	**10 288**	**8 403**	**8 828**	**380**	**404**	**864**	**6 093**	**6 756**
India	377	284	809	6	15	59	305	610
Indonesia	725	1 250	1 467	—	100	381	1 313	1 441
Korea	2 824	2 923	3 250	95	120	283	2 528	1 767
Malaysia	1 725	1 909	950	19	—	—	669	860
Pakistan	350	455	365	—	—	100	100	340
Philippines	1 257	635	819	—	—	—	—	715
Thailand	692	268	349	253	—	21	541	249
Other	2 338	679	819	7	169	20	637	774
Middle Eastern and African countries	**4 824**	**6 397**	**8 703**	**240**	**200**	**286**	**3 092**	**6 259**
Algeria	—	26	1 934	180	—	—	200	726
Egypt	63	353	335	—	—	—	19	285
Morocco	774	326	226	—	—	—	115	226
Nigeria	1 802	2 042	1 775	—	—	—	—	1 736
Turkey	100	2 042	1 106	—	100	—	700	501
United Arab Emirates	363	93	876	—	—	—	39	715
Other	1 722	3 280	2 451	60	100	286	2 019	2 070
Centrally planned countries	**1 791**	**765**	**1 212**	**30**	**139**	**50**	**2 190**	**937**
East Germany	470	8	392	15	—	—	90	392
Hungary	550	340	683	—	75	—	872	408
Soviet Union	25	374	68	—	—	—	528	68
*Other****	746	43	69	15	64	50	700	69
International organizations******	**302**	**160**	**1 321**	—	—	—	—	**1 321**
Total	**133 379**	**85 015**	**74 212**	**9 476**	**6 833**	**3 964**	**82 227**	**52 170**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON Institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*			*1984*
							Jun	*Sep*	*Dec*	*Mar*
Gross market size	740	949	1 233	1 524	1 861	2 057	2 045	2 115	2 144	2 257
Nonbanks	135	174	245	327	428	474	489	515	540	603
Official monetary institutions	100	115	145	150	132	90	84	90	89	90
Other banks	505	660	843	1 047	1 301	1 493	1 472	1 510	1 515	1 564
Eurodollars as % of gross	76	74	72	75	78	79	80	80	80	78

Central bank discount rates

at or near end of month

	1981	1982	1983	1984					Current	
	Dec	Dec	Dec	Apr	May	Jun	Jul	Aug	Sep 20 1984	effective since
United States	12.00	8.50	8.50	9.00	9.00	9.00	9.00	9.00	9.00	Apr 9, 84
Canada	14.66	10.05	9.96	10.84	11.54	12.36	12.98	12.38	12.28	Sep 20, 84
Austria	6.75	4.75	3.75	4.25	4.25	4.50	4.50	4.50	4.50	Jun 28, 84
Belgium	15.00	11.50	10.00	11.00	11.00	11.00	11.00	11.00	11.00	Feb 16, 84
Denmark	11.00	10.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	8.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	5.00	4.00	4.00	4.00	4.50	4.50	4.50	4.50	Jun 29, 84
Ireland	17.15	14.35	11.50	12.00	12.00	12.00	13.00	13.00	13.00	Jul 27, 84
Italy	19.00	18.00	17.00	16.00	15.50	15.50	15.50	15.50	16.50	Sep 4, 84
Netherlands	9.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	19.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	11.00	10.00	8.50	8.50	8.50	9.50	9.50	9.50	9.50	Jun 29, 84
Switzerland	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.37	10.00	9.00	8.50	9.00	8.88	11.88	10.38	10.38	Aug 17, 84
Japan	5.50	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Oct 22, 83
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 12, 81
Argentina	98.50	128.54	183.75	167.37	167.37	167.37	199.94	199.94	199.94	Jul 1, 84
Korea	10.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.69	6.30	8.05	9.50	9.64	9.88	10.97	n.a.	10.97	Jul, 84
Singapore	9.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	14.50	12.50	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Dec 9, 83
Venezuela	14.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	12.37	8.95	9.47	9.56	9.59	9.91	10.29	10.32	11.06	11.23	11.64
Canada	14.53	10.63	8.78	9.60	9.63	9.50	9.72	9.78	10.75	11.41	12.25
Austria	7.50	6.00	5.75	5.87	5.87	6.00	6.38	6.50	6.50	6.50	6.63
Belgium	12.78	9.43	8.65	8.03	7.57	11.20	11.37	9.13	9.80	10.22	10.72
Finland	11.30	11.50	16.70	17.50	17.50	17.50	16.77	16.53	16.80	16.53	16.50
France	15.46	12.88	12.27	12.39	12.30	12.48	12.15	12.04	12.12	11.51	11.43
Germany	10.65	6.07	5.60	5.61	5.55	5.52	5.53	5.53	5.53	5.57	5.53
Ireland	16.88	14.54	12.19	12.12	11.25	10.75	12.12	11.75	10.94	12.00	11.88
Italy	20.63	19.00	17.88	17.91	17.67	17.25	17.25	16.93	16.75	16.75	16.63
Netherlands	10.67	5.31	5.84	5.77	6.12	6.13	5.79	5.62	5.85	5.98	5.85
Norway	18.60	11.00	13.00	12.80	11.45	13.00	13.00	13.00	12.50	12.00	12.50
Spain	18.73	20.30	16.41	10.16	18.14	14.75	11.54	11.93	11.91	11.15	12.69
Sweden	13.82	8.63	11.48	11.36	10.90	10.15	9.65	11.50	13.50	12.95	13.50
Switzerland	3.38	1.25	1.88	1.00	1.62	2.25	2.00	2.25	2.13	2.88	2.00
United Kingdom	9.13	6.70	7.77	7.31	7.12	7.08	6.25	3.25	5.00	8.63	10.58
Australia	12.84	11.04	4.56	7.09	9.05	11.21	13.45	13.30	11.44	11.34	10.94
Japan	6.70	6.92	6.47	6.05	6.04	6.05	5.88	5.74	5.91	6.03	6.15
South Africa	12.75	14.15	16.06	17.13	17.25	17.25	17.25	17.25	17.25	18.06	20.30
Argentina	84.93	155.32	178.30	138.61	128.53	128.52	161.88	161.88	161.88	194.56	194.56
Brazil	103.74	150.42	184.69	224.27	295.48	268.44	217.98	198.78	226.75	283.79	242.73
Hong Kong	10.75	9.13	13.90	7.25	3.31	7.32	9.00	11.00	13.00	23.40	11.30
Korea	14.40	13.84	11.40	11.30	10.50	10.00	11.70	11.90	11.90	11.70	11.70
Philippines	14.70	16.12	31.18	25.52	21.76	9.99	17.93	33.17	40.17	39.79	n.a.
Singapore	3.96	11.45	7.05	6.92	6.83	7.64	8.13	7.82	6.80	7.67	8.05

Treasury bill rates

bond equivalent yields, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	11.90	8.15	9.28	9.20	9.48	10.09	10.02	10.13	10.29	10.67	11.06
Canada	14.41	9.80	9.71	9.73	9.79	10.53	10.59	11.29	12.11	12.73	12.13
Belgium	16.00	12.25	10.85	10.85	12.25	12.25	11.75	11.75	11.75	11.75	11.50
Ireland	17.35	14.70	11.63	11.80	12.16	12.59	12.35	12.10	12.08	13.23	12.81
Italy	21.36	19.11	16.95	15.74	15.81	15.61	15.45	14.99	n.a.	n.a.	n.a.
Netherlands	9.75	5.62	5.63	5.75	6.12	5.88	5.38	5.63	5.88	5.75	5.75
Spain	n.a.	15.28	14.46	13.61	13.66	13.20	12.64	12.04	11.17	10.30	9.44
Sweden	n.a.	12.90	11.75	11.10	11.15	10.80	10.99	11.83	14.20	14.12	14.06
United Kingdom	15.31	9.90	9.08	9.08	9.08	8.59	8.59	9.99	9.08	11.77	10.22
Australia	13.27	9.39	8.54	9.43	10.35	13.11	11.89	11.81	11.24	10.60	9.74
Japan	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91	4.91
New Zealand	11.25	11.25	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
South Africa	14.55	14.62	18.43	18.55	18.57	18.57	18.64	18.64	18.44	19.69	23.12
Brazil	92.62	115.40	179.15	179.15	179.15	179.15	179.15	179.15	179.15	179.15	179.15
Mexico	33.33	57.44	53.78	53.02	50.32	46.16	46.63	51.56	n.a.	n.a.	n.a.
Philippines	13.22	14.54	15.99	16.27	17.01	17.25	17.61	20.81	28.53	31.27	n.a.
Singapore	3.03	2.74	2.59	2.67	2.65	2.66	2.87	3.00	3.01	3.00	3.01

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	12.78	8.81	9.75	9.36	9.68	10.30	10.50	10.94	11.63	11.36	11.58
Canada	15.25	9.95	9.87	9.85	9.95	10.70	10.75	11.55	12.50	13.05	12.30
Belgium	16.00	12.35	11.00	11.00	12.50	12.35	11.90	11.90	11.90	11.90	11.50
France	15.25	12.75	12.19	12.25	12.54	12.56	12.31	12.25	12.06	11.63	11.18
Germany	10.50	6.20	6.30	6.10	5.85	5.80	5.70	6.25	6.10	6.05	5.90
Ireland	18.50	15.75	12.19	12.25	12.56	13.00	12.88	12.75	12.50	13.75	13.25
Italy	21.00	19.00	17.88	17.88	17.00	17.25	17.25	16.75	16.63	16.63	16.63
Netherlands	11.00	5.25	6.00	5.94	6.00	6.06	5.88	6.13	6.19	6.44	6.38
Portugal	13.80	15.04	24.11	24.06	23.79	23.99	24.04	24.00	25.25	24.65	24.53
Spain	15.52	16.55	18.48	17.30	18.30	16.42	15.07	14.66	13.45	12.91	13.19
Switzerland	10.12	3.87	3.87	3.62	3.75	3.94	3.88	4.25	4.50	4.88	5.38
United Kingdom	15.69	10.50	9.31	9.37	9.21	8.88	8.81	9.75	9.44	12.31	10.69
Australia	16.00	10.65	9.50	11.00	13.00	13.55	14.20	13.55	12.70	12.50	11.10
Japan	6.30	6.80	6.42	6.30	6 40	6.40	6.20	6.35	6.32	6.33	6.32
New Zealand	16 05	16.75	12.10	13.85	15.00	14.75	15.00	17.00	17.00	16.50	15.25
South Africa	15.47	15.26	19.12	19.07	19.01	18.30	19.07	18.00	18.74	20.78	23.39
Chile	34.54	71.44	22.42	19.56	14.03	11.35	18.16	18.16	18.16	19.56	18.16
Hong Kong	14.18	10.13	12.84	11.37	7.87	7.90	9.93	12.38	13.13	17.06	12.83
Indonesia	14.48	18.50	19.50	19.00	20.50	19.50	18.50	19.00	20.00	21.00	n.a.
Korea	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Malaysia	9.50	8.50	9.80	9.47	8.51	8.95	9.10	9.20	9.70	10.20	10.50
Philippines	17.70	15.96	15.61	16.08	17.41	17.14	15.83	26.51	17.93	19.55	n.a.
Singapore	7.81	8.69	8.44	7.75	7.75	8.50	8.63	9.13	9.00	9.06	9.03
Taiwan	10.94	9.94	7.65	9.22	9.42	7.81	7.31	6.15	7.77	7.27	6.62
Thailand	14.29	12.25	16.00	16.50	17.00	15.50	13.50	14.00	13.50	13.50	13.50

Commercial bank deposit rates

at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	12.62	8.25	9.70	9.40	9.77	10.35	10.50	11.50	11.70	11.38	11.58
Canada	15.20	9.85	9.82	9.80	9.90	10.65	10.70	11.50	12.45	13.00	12.25
Austria	9.63	6.25	6.50	6.50	6.25	6.44	6.56	6.88	6.88	6.88	6.94
Belgium	15.50	12.25	11.25	10.87	12.37	11.75	11.50	11.88	12.50	11.63	11.25
Denmark	10.00	9.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	9.16	8.24	7.66	7.72	7.76	7.76	7.76	7.55	7.55	7.50	7.30
Germany	9.50	6.00	5.90	5.65	5.40	5.35	5.35	5.65	5.60	5.55	5.40
Ireland	18.38	15.25	11.75	11.87	12.37	12.63	12.50	12.50	12.25	13.13	12.75
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	11.64	11.64	11.64	11.64
Netherlands	11.00	5.37	6.13	5.94	6.00	6.06	5.75	6.00	6.13	6.31	6.13
Norway	12.75	13.50	12.75	13.00	12.50	12.75	12.75	12.50	12.50	12.25	12.25
Portugal	14.00	15.00	21.50	21.50	21.50	21.50	21.50	21.50	28.00	28.00	28.00
Spain	11.78	12.53	12.62	12.49	12.52	12.35	12.64	12.49	12.75	n.a.	n.a.
Sweden	12.65	12.15	11.70	11.00	11.10	10.65	10.65	11.25	13.65	13.70	13.55
Switzerland	8.75	3.00	3.50	3.25	3.25	3.00	3.00	3.25	3.25	4.25	4.88
United Kingdom	15.69	10.31	9.31	9.37	9.25	8.88	8.91	9.94	9.44	12.25	10.59
Australia	15.65	10.20	10.40	11.25	12.20	13.13	13.36	13.43	12.80	12.28	10.85
Japan	6.50	7.00	6.50	6.52	6.63	6.50	6.35	6.50	6.45	6.47	6.46
New Zealand	15.50	16.50	11.50	13.75	10.00	10.00	14.75	16.50	15.00	15.00	15.50
South Africa	14.75	15.25	20.13	19.45	18.88	19.38	18.88	18.78	18.65	20.50	23.25
Argentina	86.76	103.42	176.41	139.91	121.66	121.66	158.17	158.17	158.17	188.58	188.58
Brazil	110.05	21.00	23.00	26.00	25.00	23.00	19.00	22.00	22.00	20.00	21.00
Chile	36.87	57.72	22.28	19.74	12.95	11.09	18.16	18.16	18.16	19.56	18.16
Hong Kong	12.50	7.50	9.00	7.00	5.50	5.50	8.00	9.50	12.50	12.50	9.50
Korea	14.40	7.60	7.60	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	10.00	8.40	7.75	7.75	7.75	7.83	7.83	8.70	8.83	8.88	8.95
Mexico	31.82	52.54	54.70	53.86	51.21	47.63	47.30	49.00	n.a.	n.a.	n.a.
Philippines	13.35	14.10	14.96	14.33	15.57	15.37	15.30	15.92	20.83	19.92	n.a.
Singapore	7.50	8.25	7.44	7.13	7.19	7.69	8.01	8.38	8.19	8.19	8.19
Taiwan	10.75	7.50	7.00	7.00	7.00	7.00	7.00	6.75	6.75	6.75	6.75
Thailand	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	14.75	15.50	12.00	11.50	11.50	11.00	11.50	12.00	12.00	12.50	12.50

Domestic government bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	14.33	10.61	12.00	11.72	12.13	12.49	12.79	13.58	13.75	12.97	12.69
Canada	15.27	11.69	12.02	11.92	12.40	13.06	13.31	13.93	13.81	13.41	12.89
Austria	10.37	8.81	8.02	7.96	7.88	7.88	7.94	7.99	8.06	8.09	8.10
Belgium	13.99	12.66	11.89	11.97	12.35	12.20	12.08	12.19	12.13	12.05	11.82
Denmark	20.91	20.14	12.96	13.39	14.02	14.78	14.27	15.20	15.54	15.33	15.17
Finland	10.98	10.64	11.16	11.17	10.62	11.19	10.80	11.20	11.29	11.35	10.83
France	16.44	15.40	13.96	13.76	13.78	14.05	13.81	13.82	13.99	13.91	13.58
Germany	9.71	7.90	8.38	8.33	8.13	8.18	8.18	8.29	8.25	8.27	7.97
Ireland	18.28	14.54	14.25	13.94	14.16	14.08	14.14	14.49	14.58	14.89	14.95
Italy	21.39	19.70	17.69	16.91	16.34	15.69	15.74	15.71	n.a.	n.a.	n.a.
Netherlands	11.28	8.16	8.58	8.57	8.56	8.40	8.45	8.52	8.68	8.69	8.50
Norway	12.37	13.32	12.50	12.50	12.25	12.25	12.25	12.00	12.00	12.00	12.00
Portugal	17.39	16.63	22.11	21.19	21.57	21.97	22.37	21.82	21.90	n.a.	n.a.
Spain	16.20	15.92	18.71	18.33	18.68	18.74	18.64	18.69	n.a.	n.a.	n.a.
Sweden	12.80	13.01	12.30	11.70	11.50	11.50	11.65	12.60	14.01	14.19	13.70
Switzerland	5.40	4.22	4.54	4.50	4.56	4.37	4.47	4.61	4.69	4.66	4.58
United Kingdom	15.02	10.62	9.94	9.97	10.04	9.89	10.16	10.73	10.81	11.17	10.43
Australia	15.00	13.00	13.65	13.70	14.05	14.00	14.00	14.10	14.00	13.30	13.10
Japan	8.11	7.96	7.45	7.45	7.45	7.25	7.30	7.60	7.50	7.47	7.45
New Zealand	12.55	12.84	10.50	10.84	11.33	10.42	8.97	8.50	10.06	10.25	15.20
South Africa	13.33	11.31	13.64	14.13	13.80	13.78	14.46	14.68	14.72	15.93	16.04
Philippines	13.01	13.64	14.47	14.42	14.61	13.67	18.47	18.45	19.04	12.19	n.a.
Venezuela	12.50	15.00	13.50	13.00	13.00	13.00	13.50	14.00	14.00	14.00	14.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	15.75	11.50	11.00	11.00	11.00	11.50	12.00	12.50	13.00	13.00	13.00
Canada	16.50	12.50	11.00	11.00	11.00	11.50	11.50	12.00	12.50	13.50	13.00
Austria	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	18.00	15.50	13.75	13.75	14.75	14.75	14.75	14.75	14.75	14.75	14.25
Denmark	15.00	14.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Finland	9.84	8.95	10.18	10.30	10.36	10.38	10.42	10.43	10.48	10.48	n.a.
France	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.00
Germany	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
Italy	22.50	20.75	18.75	18.50	18.50	17.50	17.50	17.00	17.00	17.00	17.00
Netherlands	12.00	6.25	7.00	6.75	6.75	6.75	6.50	6.50	6.50	6.75	6.75
Norway	13.75	14.50	13.50	13.63	13.75	13.30	13.30	12.75	13.00	12.75	12.50
Portugal	20.50	23.50	30.00	30.00	30.00	30.00	30.00	29.00	29.00	29.00	29.00
Spain	17.04	19.00	20.85	20.01	20.55	19.44	17.96	17.55	16.19	15.49	15.27
Sweden	15.00	15.00	13.50	13.50	13.50	13.50	13.50	13.50	14.50	14.50	14.50
Switzerland	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.50	10.00	9.00	9.00	9.00	8.50	8.50	9.00	9.25	12.00	10.50
Australia	15.75	15.00	12.75	11.50	13.00	14.00	15.50	15.00	14.75	14.50	14.00
Japan	6.95	6.28	5.89	5.81	5.77	5.76	5.75	5.74	5.73	5.73	5.75
New Zealand	13.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	12.50
South Africa	17.00	18.00	20.00	20.00	20.00	20.50	20.50	20.50	20.50	22.00	25.00
Argentina	92.60	109.50	188.58	152.08	133.83	133.83	170.33	170.33	170.33	206.83	206.83
Brazil	152.40	23.81	24.00	24.00	24.00	24.00	23.00	26.00	26.00	22.50	23.50
Chile	61.43	85.19	35.11	31.43	22.75	21.26	34.35	33.04	32.30	32.30	30.38
Hong Kong	16.00	10.50	13.50	11.50	10.00	10.00	12.00	13.75	17.00	17.00	14.00
Indonesia	19.25	22.00	19.75	20.00	21.25	21.50	20.75	21.00	20.75	21.25	22.75
Korea	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	12.00	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.50	11.50	11.50
Mexico	31.81	46.12	56.44	55.95	55.16	53.11	51.10	50.12	50.38	50.69	50.93
Philippines	18.00	18.00	18.00	18.00	18.00	22.00	22.00	24.00	24.00	n.a.	n.a.
Singapore	11.83	9.33	8.98	9.05	9.03	9.20	9.63	9.98	10.08	10.10	10.10
Taiwan	15.25	10.75	10.25	10.25	10.25	10.25	10.25	10.00	10.00	10.00	10.00
Thailand	17.00	16.00	16.00	16.00	16.50	17.00	17.00	17.00	17.00	17.00	17.00
Venezuela	15.50	17.00	16.00	16.00	14.50	14.50	15.00	15.00	15.00	15.50	16.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1981	1982	1983	1984							
	Dec	Dec	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
United States	15.50	11.75	12.63	12.38	12.88	13.25	13.88	13.58	14.50	13.38	13.20
Canada	16.18	12.74	12.89	12.78	13.27	13.84	14.13	14.59	14.69	13.91	13.39
France	17.33	15.91	14.06	13.96	14.28	14.37	14.23	13.88	13.77	13.77	13.77
Germany	10.50	8.20	8.30	8.30	8.00	8.00	8.00	8.00	8.00	8.00	7.90
Netherlands	11.03	7.80	8.51	8.44	8.39	8.26	8.28	8.35	8.43	8.49	8.42
Norway	13.36	14.13	13.25	13.25	13.00	13.00	13.00	12.75	12.75	12.75	12.75
Spain	14.76	17.10	19.84	20.19	20.69	21.90	22.54	22.06	21.63	21.47	21.78
Sweden	12.94	13.37	12.21	12.15	11.96	11.84	12.04	12.23	12.41	12.73	12.78
Switzerland	n.a.	4.87	4.94	4.93	4.91	4.85	4.91	5.10	5.07	5.10	5.16
United Kingdom	16.65	12.34	11.57	11.52	11.61	11.29	11.48	12.11	12.69	13.06	12.15
Australia	16.50	15.00	13.50	14.00	14.50	14.50	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	7.70	7.55	7.09	7.05	7.04	6.92	6.89	7.16	7.13	7.09	7.06
Korea	26.90	15.90	14.20	14.30	14.00	13.60	13.00	13.20	13.70	14.00	14.50
Venezuela	17.00	18.00	18.00	18.00	17.50	17.50	17.50	18.00	18.00	18.00	18.50

Key to data in tables

I. International markets

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

The *country of the borrower* is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

Data on *Eurocurrency market size* are based on foreign currency liabilities of banks in major European countries, the Bahamas, Bahrain, Canada, Cayman Islands, Hong Kong, Japan, Netherlands Antilles, Panama, Singapore, and the United States (international banking facilities only).

II. Domestic markets

Day-to-day money rates

Argentina—7-day interbank money regulated by the Central Bank.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — interbank overnight money.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan **— Tokyo interbank call money, unconditional lenders rate.**

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call loan rate.

Singapore — interbank overnight money.

South Africa — discount houses basic call rate.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Brazil — 3-month Treasury bills.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — simple average of 91-day Treasury bills at tender until June 1984. Beginning July 1984 this rate is based on negotiated sales to banks.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit used for monetary correction until March 1982. New series as of April 1982, 6-month Treasury bills.

Sweden — new issues of 3-month Treasury bills until June 1982. New series as of July 1982, 6-month Treasury discount notes, market rate.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

Chile — 60-day Central Bank promissory notes (PDBC).

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Indonesia — 1-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan **— 3-month repurchase agreements.**

Korea — 3-month financial bill.

Malaysia — 3-month interbank deposits.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines—weighted average interest rate for 90-day promissory rates.

Portugal — average of 30- to 90-day interbank deposits.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

Taiwan — interbank call money.

Thailand — interbank call money.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month certificates of deposit with prefixed yields until July 1982. New series as of August 1982, 6-month certificates of deposit reported as a spread above monetary correction which is set every month in relationship to inflation.

Canada — 3-month time deposits.

Chile — 30-day time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Malaysia — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month special term deposits.

Philippines — administrative ceiling on 90-day time deposits until June 1981; ceilings on time deposits with maturity of 730-days and below were lifted from July 1981 to September 1981; new series as of October 1981, weighted average interest rate on 60- to 90-day time deposits of sample commercial banks.

Portugal—90- to 180-day time deposits until May 1984. New series as of June 1984, 180-day to one-year time deposits.

Singapore **— 3-month certificates of deposit.**

South Africa **— negotiable certificates of deposit.**

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Key to data in tables — continued

Sweden — 3-month certificates of deposit.

Switzerland — 3-month time deposits.

Taiwan — 3-month time deposits.

Thailand — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for domestic depositors only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 12% serial bonds maturing 2001 until April 1983. New series as of May 1983, 10% serial bonds maturing 2004.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond until December 1979. New series as of January 1980, average yield of national government bonds for maturities of 10-years or more.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — weighted average interest rate of outright sales on secondary transactions for Central Bank certificates of indebtedness.

Portugal — yield of 4% Centenary Loan of 1940.

South Africa — 25-year government bonds until August 1983; 20-year Republic of South Africa bonds until April 1984; new series as of May 1984, secondary market yield for the 13% due 2005 Republic of South Africa bond.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds until October 1983. New series as of November 1983, 5-year government bond yield index, market rate.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia - - approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — prefixed rate applied to working capital loans until July 1982; monetary-corrected free rate applied to working capital loans from August 1982 to July 1983. New series as of August 1983, maximum legal rate reported as a spread above monetary correction which is set every month in relationship to inflation. Charges for fees and commissions are often added.

Canada — prime rate.

Chile — average prime rate of six major commercial banks.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month. A spread above base rate is often added.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Indonesia — prime rate for domestic affiliates of foreign companies.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Malaysia — Bank of Commerce Berhad base lending rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .25% per quarter on the total line of credit until January 1983. New series as of February 1983, special rate of first class, large borrowers.

Philippines — prescribed administrative ceiling for unsecured loans with maturities of 365 days and below, including charges until December 1982. New series as of January 1983, modal rate to prime borrowers.

Portugal — maximum rate for 90- to 180-day loans.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — overdraft rate for prime industrial borrowers, commission not included.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

Taiwan — maximum rate for 3- to 12-month secured loans. Rate is an indication only and may vary from actual bank lending rate which is subject to volatile interbank rates.

Thailand — prime rate.

United Kingdom — clearing bank base lending rate. A spread above base rate is often added.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for domestic prime borrowers only.

Domestic corporate bond yields

Australia — new issue yields for AA corporate bonds having a maturity of 5- to 7-years.

Canada — McLeod, Young, Weir Co. Ltd., weighted long-term bond yield index for AA corporates.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — Bundesbank average yield on industrial bonds.

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies. Mixture changed as of January 1982.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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